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Developing a Generic Process for Logistics Outsourcing

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Spring of 2017 has been hectic, to say the least. New challenges at work along with undertaking this research have offered positively busy times. Even though being challenging, the process of conducting this study has been highly educational, as well as rewarding. Same can be said about the whole degree programme. However, without receiving support along the way from several people, I believe that the journey to this point would have been significantly harder. Therefore, I would like to take this opportunity and thank everyone who has contributed positively along the way.

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<p>This thesis focuses on developing a generic logistics outsourcing process for the case company. Due to a recent company acquisition, the case company is required to realign its logistics operations to allow for synergies, as well as for adjustment to the company strategy. As part of the realignment, use of in- and outsourcing in the logistics operations have to be defined. This requires case company to increase its preparedness and internal capabilities of outsourcing related decision-making.</p> <p>This study is conducted by first reviewing relevant literature related to outsourcing and outsourcing practices. From the literature, a conceptual framework is constructed, which serves as a basis for the development of the outsourcing process for the case company. The study also reviews current outsourcing practices in the case company. Based on literature, and the results of the current state analysis, a proposal for the outsourcing process is drawn. Finally, the developed proposal is improved with the key stakeholders from the case company to construct the final outsourcing process.</p> <p>The outcome of this thesis is a generic level outsourcing process. It consists of five consecutive stages covering an outsourcing lifecycle. Each stage has its specific objectives and activities. Process incorporates relevant decision factors related to in- and outsourcing decisions. Factors such as company strategy, economic performance, and internal as well as external capabilities are taken into consideration. It addresses the questions of whether to outsource or not, and how to conduct outsourcing activities so that the set objectives are reached and possible risks mitigated.</p> <p>Outsourcing process developed in this thesis allows the case company to take a more structured and logical approach to its current and future outsourcing activities. By providing guidelines and incorporating relevant decision factors, the process increases case company's ability to use outsourcing effectively as part of the logistics operations.</p>	
Keywords	Outsourcing, logistics outsourcing, process development

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1 Introduction

In this thesis, a generic outsourcing process is developed for the case company's logistics operations. For the case company, requirement for more structured approach for outsourcing activities arises from a recent company acquisition. After acquisition, the company has to realign its logistics operations. Logistics operations should be realigned to support the company strategy as well as to achieve synergies from the acquisition. Within the realignment, the case company must define how to use outsourcing in its global logistics operations.

1.1 Business Context

Company reviewed in this thesis is Kesko Ltd. and its division of building and technical trade (BTT). Kesko BTT's main business is to offer its customers a wide range of building and home improvement products. Its main customer segments are B2B customers, B2C customers and project customers. In addition to Finland, it has also operations in Scandinavia and Baltics. In June 2016, Kesko BTT acquired Onninen Corporation, a formerly family owned building material provider competing in B2B markets. Similarly, Onninen also has operations in several countries in addition to Finland, including Scandinavia and Baltics.

The background of the current situation in the logistics function of the case company lies in the formerly separate two logistics operations. As stated, Kesko Corporation acquired Onninen Corporation, which led to a current situation, where two organizational setups exist within the Kesko BTT division. Prior to merging, the two companies had organizations that supported different business objectives and strategies. Kesko BTT had a variety of customer segments including B2C, B2B as well as project customers.

Within these customer segments, several business models existed, as well as logistical operation tailored to support those models. Onninen's main business however was concentrated on B2B markets. It also had several business models by which it provided services and products to its customers. Onninen's logistics operation was specified to serve these business needs and therefore had dissimilarities with Kesko BTT's logistics operation. Currently, for the most parts, pre-merging setup of separate logistics operations still exists.

The current situation at the case company is also affected by the renewed company strategy. As the two companies formerly had different business objectives as well as skills and competencies to support them, combining them allows the new organization to seek for new business opportunities. To allow realization of these opportunities, a new strategy with updated business objectives was devised. Updated strategy aims for increased market share in B2B, B2C and project customer segments and further growth in international markets. Competitive advantage is to be created by offering end customers within all customer segments superior customer value. Also, continuity of the business is secured by increased profitability of the operation.

1.2 Business Challenge, Objective and Outcome

To reach these strategic objectives, a new organizational common core is to be established by integrating the competencies and skills of the formerly separate businesses. Integration enables synergies in the existing capabilities and development of new capabilities in the future that further add to competitive edge. Strategy update had also implications to the logistics function of the case company. To support the strategy, guidelines for the logistics operation were drawn. Aim of the guidelines is to support the overall business demands by integrating logistics operations of the formerly separate companies. Based on the integrated operations, aim is to maintain and develop competitive and profitable logistics solutions. These solutions serve the end customer as well as company's internal interfaces such as the sales function.

Integration of currently separate operations, as well as their alignment to the new strategy, requires clarification of outsourcing practices within the case company. Current situation in the case company is characterized by the two emergent models of in- and outsourcing of the logistics operation. Kesko has had outsourced operative logistics for many years, only keeping the business-critical supply chain management and service provider management operations internal. In Onninen however, all of logistics operations has been traditionally seen as business critical and therefore kept internal. Both companies have had their reasons for the selected model, but now the integration activities necessitate to define the model in which the integrated operations are conducted. As said by the Kesko BTT's Head of Supply Chain

"In Kesko BTT, for many years before the merging, the situation has been stagnant regarding the question of whether to make-or-buy. Development of

the company strategy, as well as the realized provider performance, has not given reasons to question the current ownership model. But, now the situation is completely different”.

This requirement is underlined by the fact that the own model of in- and outsourcing is different in all the common operating countries of the formerly separate companies.

Merging has also raised other reasons for increased preparedness to assess viability of outsourcing decisions. In the logistics guidelines drawn to support the strategy, several factors relate to outsourcing. Operations flexibility and scalability is stated as a mean to adapt to changing business requirements and possible expansion to new market areas. New capabilities and knowledge are to be acquired when necessary related to any given question at hand to ensure logistics performance. In fact, in the guidelines, flexible use of service providers is mentioned as mean to achieve set objectives in the global logistics network. Also, objectives related to increased operations profitability necessitate to consider the model of in- and outsourcing. Head of Global Distribution Center Services at Kesko BTT specified that

“The company must have internal awareness and knowledge about outsourcing activities to able to successfully implement the new strategy. We must be prepared to make both tactical and strategic level decisions related to outsourcing now, and in the future”.

This specification further clarifies the need for ongoing preparedness of assessing viability of outsourcing initiatives of different scopes and objectives, as well as preparedness to question existing arrangements. As the case company does not possess any specific method for outsourcing practices currently, the situation calls for development of prescriptive process to guide the company in assessing benefits and risks related to outsourcing, as well as for implementing outsourcing activities.

Therefore, *objective of this thesis is to create a generic division level process for implementing logistics in- and outsourcing.* Outcome of this thesis is a generic process for implementing logistics in- and outsourcing in multiple practical cases.

1.3 Thesis Outline

Several methods are used in this thesis. First, literature related to the subject is reviewed to form the conceptual framework of this thesis. Then, Kesko BTT's current outsourcing practices are analysed. Analyses are conducted by gathering data by interviews. Based on the conducted analyses and literature, initial proposal for the process is presented to the stakeholders in the company. Using comments received from the stakeholders, final process is constructed. Hence, structure of the thesis is divided in to literature review, current state analysis, and building proposals for the process.

2 Method and Material

In this part, the research design used in this study is presented. Also, used research strategy and the rationale behind it is looked into. Part is divided into four parts. In the first part, selected research approach for this study is reviewed. The second part introduces the research design. The third part presents the data collection and analysis methods, and in the final part, the quality aspects of the conducted research is reviewed.

2.1 Research Approach

Selecting a correct research strategy is a necessary part of any research. Research strategy as a notion relates to a set of predetermined procedures that are used for investigating an empirical topic. In research, there are numerous different research strategies that exist. Each contain different procedures, for example in their way of collecting and analysing data, and each of them are best suited for different nature of phenomenon studied. Although some overlapping between different strategies in their procedures and logic exist, it is important to understand the difference between them, to be able to select the best suited for a studying a given phenomenon (Yin 2003).

In selecting a research strategy for studying a certain issue, a set of conditions can be used as guidelines. As said, to some extent different strategies in their suitability to different nature of issues overlap, but probability of selecting best suitable one by using these guidelines increases. The first condition, and the most important one, is the definition of the research question that depicts the issue at hand. Second condition is the definition of how much control or influence the researcher has over the studied phenomenon. The third condition relates to the question whether the studied issue is contemporary or historical (Yin 2003).

Research strategy selected for this thesis is case study. In the context of aforementioned conditions, case study is suitable research strategy, if the research question is in the form of “how” or “why”, the researcher has little or no influence to the studied issue, and the studied phenomenon is contemporary in its nature (Yin 2003). In case of this thesis, the research question can be formed as follows: *How outsourcing process should be constructed to support business needs of the case company?* The form of the research

question “how”, implies that the case study is suitable research strategy. Also, the second condition implies to the use case study. As the researcher cannot influence the phenomenon that is studied, and the objective of the thesis requires no participation from the researcher in actual processes that are studied, researcher therefore has little or no influence to the researched phenomenon itself. Thirdly, studied phenomenon is contemporary instead of historical.

Case study is also suitable research strategy for the situations where the real-life environment of the issue studied is a relevant part of the phenomenon, and the borders between the phenomenon and the context it appears in are unclear (Baxter and Jack 2008). Also according to these definitions, case study is suitable method to be used in the research of this thesis.

In its data collection and analysing methods, case study research can utilize multiple sources of evidence, and if necessary, combine the use of qualitative and quantitative approaches (Baxter and Jack 2008). Qualitative research approach is well suited for creating holistic understanding of phenomenon in their own context that are lacking in prior insight. Quantitative research methods rely more on standardized and structured methods of gathering and analysing data (Eriksson and Kovalainen 2008). Using multiple data sources enhances case study’s credibility as a research strategy, and can add to the rigor of the research. This can be necessary, since compared to many other research strategies, case study lacks in specific methodological guidelines and procedures (Yin 2003). In this thesis, qualitative approach is most suitable, because existing knowledge of the studied issue is scarce, holistic knowledge of studied subject is required, and the issue is highly related to its context.

2.2 Research Design

Research design of this thesis consists of five parts. In the first part, the business challenge of the thesis is clarified. From the business challenge, the objective and the actual expected outcome from the conducted research is defined. This stage is important, since it creates substance to the researched problem, and determines the rest of the research process in terms of used research method and scope. Figure 1 presents the research design of this thesis.

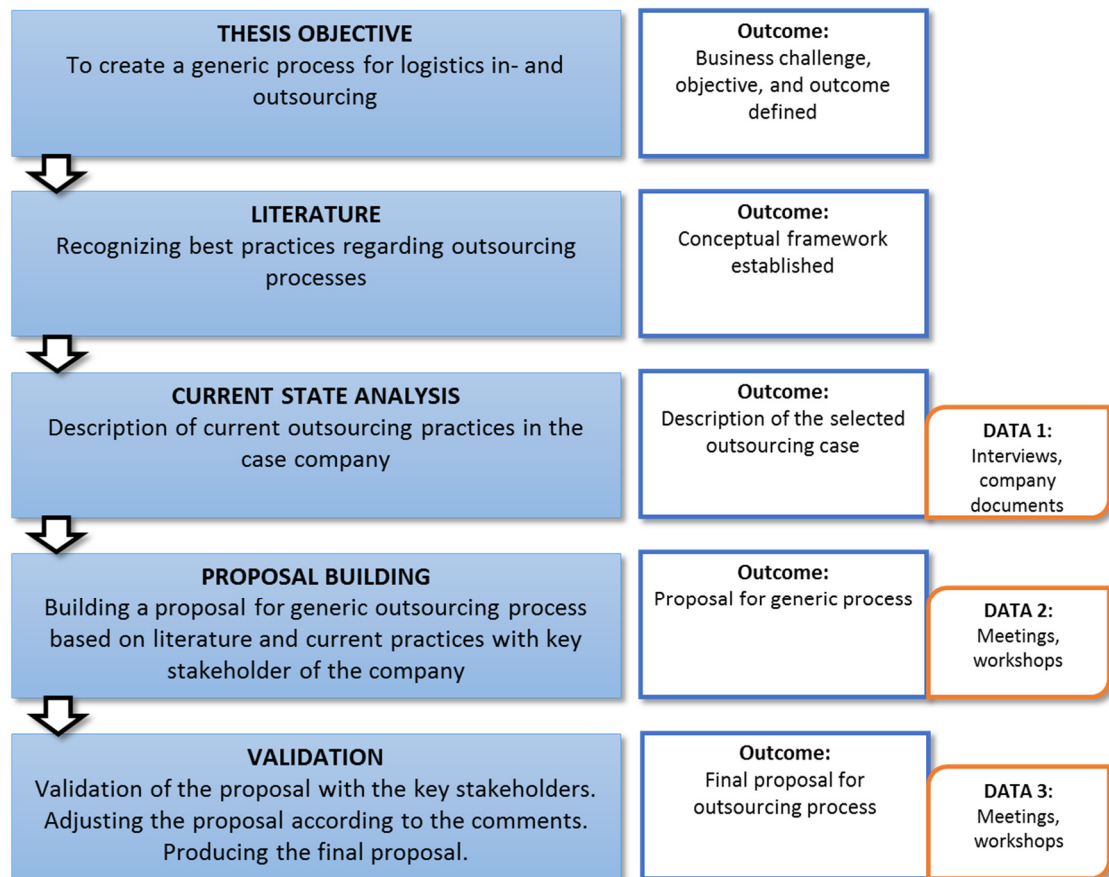


Figure 1. Research design of this thesis.

As seen from Figure 1, the research design of this study is divided to five consecutive stages, and to three different stages of data collection and analysis.

After identifying the business challenge and objective, in the second part, the literature review, relevant literature to the studied issue is looked into. The objective of this part is to create a conceptual framework for the conducted study. Literature review is done prior to the current state analysis to allow recognition of theory relevant aspects in the following process analysis stage more efficiently.

In the third part, the current state analysis, the case company and its current outsourcing practices are looked into. Based on the conceptual framework and knowledge created in the literature review, essential strengths and weaknesses in the current outsourcing practices of the case company are analysed.

At the following stage, proposal building, the conceptual framework and results from current state analysis are combined to form the a proposal of the outsourcing process. To create the proposal, data collected and created in the current state analysis is combined with input from key stakeholders. From this process, final proposal as well as second data set is produced.

In the fifth and final research stage, the final proposal created in the previous part is taken to the key stakeholders for validation. After the validation and possible modifications to the proposal according to key stakeholders' comments, final version of the generic outsourcing process is drawn. This ends the thesis research process.

2.3 Data Collection and Analysis

Data collection and analysis of this thesis consists of three rounds of data collection. The first stage, Data 1, is as part of current stage analysis. Data 1 is gathered by conducting interviews. Data is mainly qualitative in its nature. Analysis of Data 1 forms basis for the description of the company's current state of outsourcing practices and used along with the conceptual framework to construct the initial proposal of the outsourcing process.

Second stage, Data 2, is part of the final proposal building stage. In data 2, findings of Data 1 are combined to comments from key stakeholders. Thus, data 2 is created in cooperation with stakeholders. Input from stakeholders are gathered from meetings and workshops. Purpose of data 2 is to construct the final proposal for the process. The following data collection stage, Data 3, forms the basis for the final version of the process, and thus the outcome of this thesis. Data 3 is created when the final proposal is taken to key stakeholders for validation.

Table below shows the different research data sources used in this research and the purpose of each data collection and analysis stage.

Table 1. Used research data types.

Data	Content	Data Source	Data Type	Purpose of the Analysis
Data 1; Gate 4, CSA	Review of past outsourcing case undertaken by the case company	Interviews with stakeholder	Case descriptions, text documents, interview questionnaire	Evaluation of strenghts and weaknesses of the case company's existing outsourcing practices
	Current situation in case company related to outsourcing activities	Interviews with stakeholder	Text documents	Clarification of case company's current situation and requirements for outsourcing
		Case company strategy and guidelines material	PPT presentation	Clarification of case company's current strategy and its implications to outsourcing
Data 2; Gate 5, proposal building	Review of the initial proposal with key stakeholders	Workshops with stakeholders, meetings with stakeholders	Process flow charts, text documents	Gather data for creation of the final proposal for the validation stage
Data 3; Gate 6, validation	Validation of the final proposal	Workshops with stakeholders, meetings with stakeholders	Process flow charts, text documents	Validation of the final proposal created in the previous stage to cinstuct the final version of the process

As seen from Table 1, data collection and analysis consists of three stages, and each stage have their purpose in supporting the research process. In addition to different data sources, the data collection and data types are also presented below in more detail.

Table 2. Details of data collection.

	Data type	Source / Participants	Topic	Date
DATA 1				
1	Interview questionnaire, text documents	Head Supply Chain	Review of the outsoucing case	10.4.2017
2	Interview questionnaire, text documents	Head Supply Chain	Review of the outsoucing case	12.4.2017
3	Text documents	Head of DC services	Current situation in case company related to outsourcing activities	12.4.2017
4	PPT presentation	Case company strategy and guidelines material	Company strategy in relation to outsourcing	11.2.2017
DATA 2				
4	Process work flow, text documents	Head Supply Chain, Head of DC services	Improvement of the initial proposal	27.4.2017
5	Process work flow, text documents	Logistics Director	Improvement of the initial proposal	28.4.2017
DATA 3				
6	Process work flow, text documents	Head Supply Chain, Head of DC services, Logistics Director	Improvement of the final proposal	2.5.2017

Table 2 represents each collected data set and its source. It also contains the document title, and thus allows for easier traceability of the specific data from the research database.

2.4 Quality Plan of this Thesis

In addition to the selection of a suitable research strategy, research design also ensures the quality of the research. Quality of the research refers to how trustworthy the results of the research are, and it measures the scientific nature of the conducted study. Traditionally quality can be evaluated by using two concepts of reliability and validity along with other criteria, such as relevance, logic and rigor. An important factor is also to recognize the difference in evaluation criteria between qualitative and quantitative research methods, which each to a certain extent require specific evaluation criteria (Eriksson and Kovalainen 2008). Here, the focus is placed on evaluation methods of qualitative case study, since this research strategy is used in this thesis.

To evaluate the quality of research regarding reliability and validity, four tests can be applied to the evaluation of empirical research, such as case study (Yin 2003). These tests are *construct validity*, *internal validity*, *external validity*, and *reliability*. *Construct validity* relates to creating suitable operational measures for the issues being studied. This can be done by using multiple sources for evidence, establishing a chain of evidence, and reviewing the conclusions of the research by key informants. In this thesis, multiple sources of evidence are planned to be achieved by using data triangulation. Chain of evidence is created firstly by creating a database for the gathered evidence during the data collection, secondly by maintaining specific charts depicting time and circumstances when the data was collected, and thirdly, by citing the relevant sources in the research report. Conclusions reviewing is planned to be conducted during the stages when the initial proposal and final proposal is produced and validated in cooperation with the key stakeholders.

Internal validity relates to the correctness of the causalities and deductions made within the research process (Yin 2003). In this thesis, internal validity is planned to be addressed by conducting pattern-matching, explanation building, and by using logic models during the data analyzing stages. In the test for *external validity*, the generalizability of a study's results is assessed. In case studies, external validity refers to how applicable

case study's results are when taken out of the specific case. External validity in case studies can be ensured by using analytical generalization, which generalizes results to specific prior theory (Yin 2003). In this thesis, generalization is done by reflecting case study findings to conceptual framework created in the stage of literature review.

Reliability refers to how repeatable the conducted research is, and whether by repeating the exact study procedures, would the same results and conclusion be produced (Yin 2003). In this thesis, reliability is pursued by creating a database for the research evidence and data source documentation, and by maintaining as accurate as possible documentation about the procedures and rationales behind those procedures along the research process.

In addition, to ensure quality in this research, relevance and logic is also considered. Relevance of the study is planned to be ensured by stating the initial research question so that it depicts the business challenge of the case company. This is done by validating the depicted business challenge, thesis objective and expected outcome by the key stakeholders before initiating the research process. Also, during the research process, cross checking of research relevance is planned to be conducted with the stakeholders. Logic of the research is mainly considered by ensuring above discussed internal validity.

Next section of the thesis focuses on building the conceptual framework for the research.

3 Existing Knowledge on Outsourcing Concepts

This part reviews literature related to the subject of this thesis. First, general concepts of outsourcing and aspects related to it are looked into. Then, an outsourcing process presented by literature is reviewed, and each stage of the process is analysed. Finally, conceptual framework of this thesis is presented.

3.1 Concept of Outsourcing

Literature contains several definitions for outsourcing. Outsourcing can be considered as discontinuation of company's internal activities, which are substituted by external provision. Outsourcing can be also defined as an activity, where company produces products or services outside the company's boundaries in search of business competitiveness. (Van Weele 2014; Insinga and Werle 2000; Gilley and Rasheed 2000).

As a notion, outsourcing contains several activities within it. Outsourcing contains an aspect of decision-making, and has been known as "make-or-buy" decision, or as a decision of company's level of vertical integration. (Arnold 2000; Quinn and Hilmer 1994; Holcomb and Hitt 2007, Slack and Lewis 2008). In outsourcing, by set of complex choices, companies decide what to perform internally and what to source from the marketplace, and by doing so, determine the boundaries and scope of the company. Outsourcing also includes a process of transition. In this transition functions that were previously kept in-house are transferred to be performed outside the company (Kakabadse and Kakabadse 2000; Ellram and Billington 2001). These functions include specific assets that can be equipment, knowledge, people or any other required factors of production that are transferred to the outside supplier. Also, decision rights to manage these factors are transferred (Greaver 1999; Van Weele 2014). However, Gilley and Rasheed (2000) state that outsourcing does not necessarily require transfer of assets, but is defined by the capabilities of the outsourcing company. In cases where a company has capabilities to produce activities by itself, but decides to buy them from the markets, company is outsourcing. When company buys from the markets because it does not possess required capabilities, it is conducting procurement.

At least two parties exist in any outsourcing arrangement. Client is the party that contracts out selected activities and provider is the party that provides agreed activities for agreed amount of time to the client (Kern and Willcocks 2000). Outsourcing creates a

relationship between the outsourcing parties, where both parties seek for rewarding exchange (Moore 1998). Relationships are unique to each arrangement, and in them benefits, risks and information are shared in different quantities depending on the nature of the relationship. Nature of the relationship is defined by the scope and criticality of the outsourced functions, as well as objectives of the outsourcing initiative (Gardner et al 1999; Sanders et al. 2007). In management perspective, outsourcing requires management of the client - supplier relationship that aims for adding value in cooperation (Hätönen and Eriksson 2009).

Outsourcing relationships create interdependencies between the parties. In addition to transfer of specific assets, client transfers decision rights over these assets to the supplier and thereby loses direct control over them. Provider takes over assets and depends on receiving compensation from the provided services. Therefore, outsourcing can change both the client's and the supplier's cost and risk profiles drastically. To avoid risks, outsourcing relationships are commonly governed by contracts. By forming a contract, both parties mitigate for external and internal uncertainties, as well as risks of opportunistic behaviour of the other party (Ellram and Billington 2001; Van Weele 2014).

Several possible benefits exist that companies seek to achieve by outsourcing. Also, several possible risks prevail in outsourcing activities. Drivers for outsourcing can be divided to two categories, financial and strategic (Vagadia 2012; Sanders et al. 2007). Financial reasons relate to lowering operational costs of a company. Transaction cost theory is commonly used to explain economic benefits of outsourcing (Hätönen and Eriksson 2009; Ellram and Billington 2001; Mclvor 2000). Transaction cost theory considers the economic impacts of performing activities internally or buying them from the market. Transaction costs are affected by asset specificity, internal and external uncertainty and infrequency of transactions that lead to opportunistic behavior and increased transaction costs. Asset specificity relates to assets used in the transaction and their uniqueness to that specific transaction. High asset specificity increases the dependency between the contracting parties as well as increases the possibility of opportunistic behavior. According to transaction cost theory, result of the transaction costs analysis should define the boundaries of the company. Other economic reasons for outsourcing are reduced fixed costs in internal functions, induced cash flow from sold assets and the need of balance sheet restructuring (Kakabadse and Kakabadse 2005; Vagadia 2012). Using economic benefits as a basis of outsourcing decision contains specific risks. Risk

of hidden costs relates to those costs that company is unable to include to the cost calculations when making the decision. These costs can induce ex-post transaction cost that hinder the benefits of sought cost benefits. Typically hidden cost relate to provider search and contracting cost, as well as costs related to managing the relationship (Barthelemy 2003; Barthelemy and Quelin 2006). Solely concentrating on economic perspectives in outsourcing also risks avoiding the possible strategic level benefits of outsourcing. Economic benefits from cost related outsourcing can be short-term and when focusing purely on costs, risk of outsourcing activities that have strategic value to the company in the long run can occur. Also, economic measures can indicate symptoms of underperforming functions, but reactive decisions based on these factors can lead to neglecting other possible development and solution methods that could be more beneficial (Barthelemy 2003; Sanders et al 2007; McIvor 2000).

Strategic reasons to outsource integrate outsourcing activities to company's overall strategy process (Kakabadse and Kakabadse 2000). Instead of aiming for short term cost benefits, outsourcing is used to align company's scope of internal activities to its overall strategic objectives. In literature, core competence theory is widely used to explain rationale behind strategic outsourcing. According to core competence theory, to create true competitive edge, companies need to develop and maintain core competencies (Prahalad and Hamel 1990). Core competencies are non-physical assets that are unique to a specific company and through which the company is able to create unique value to end customers. Core competencies allow companies to adapt and to re-align themselves to changing market requirements and sustain their competitive edge in the long run. According to core competence theory, all internal resources should be focused on those competencies while strategically outsourcing other noncore activities. Outsourcing noncore activities allow better managerial focus and resource allocation to most important activities (Quinn and Hilmer 1994; Gilley and Rasheed 2000).

Other benefit of strategic outsourcing is access to valuable capabilities. This perspective is supported by resource based theory. Resource based theory is close to core competence theory as it also states that companies possess certain capabilities that can produce them sustainable competitive advantage. (Sandberg and Abrahamsson 2011; Holcomb and Hitt 2007). Resource based theory considers outsourcing as mean to benefit from capabilities of outsourcing partners. Companies have certain capabilities internally,

and by complementing those capabilities from capabilities available at the provider market, companies are able to create more value. Therefore, outsourcing can be considered as a capability building mechanism and a tool for organizational learning.

Search for increased operation's flexibility and adaptability is also a driver for outsourcing. Fast adaptability to rapidly changing market demands and development of technologies is required to maintain competitiveness. Continuously in-house kept activities can limit company's commitment to narrow field of capabilities. Outsourcing enables fast access to new capabilities as they emerge to markets without increasing bureaucratic complexity and financial burden of investments within the company (Krstic and Kahrovic 2015; Gilley and Rasheed 2000; (Momme 2002).

Risks related to strategic outsourcing are numerous as are their short and long-term implications to the outsourcing company. Strategic outsourcing may lead to losing control over the outsourced activity. If the created relationship is not managed properly, outsourced activity can lose its alignment with the client company's strategy. Also, if the outsourced activity is critical to the client company, risks prevail that the activity degrades under the provider's management. This risk is also related to the risk of failing to choose a suitable provider in the first place, or to the risk of drawing an inadequate contract, that does not serve the benefits of both parties (Barthelemy 2003; Sanders et al. 2007). Strategic outsourcing can lead to client's excessive dependency over the provider by client signing out excess amount of decision rights or critical assets to the provider. In worst case, outsourcing can transform the provider to new competitor to the markets (Quinn and Hilmer 1994). Risks are also related to outsourcing decision and transfer activities. Client company's personnel might be negatively affected by the decision. Also, failed competency transfers and unsuccessful organizational set-ups may lead to business risks (Barthelemy and Quelin 2006) Business risks are also probable, if the end of the outsourcing arrangement is not planned with proper exit strategy.

Several other possible benefits and risks exist that relate to financial, strategic or some other reasons to outsource. For the scope of this thesis, those are not discussed further in detail. However, it can be stated that in many cases different benefits as well as risks related to outsourcing are interconnected (Hätönen and Eriksson 2009). For example, according to Arnold (2000), when assessing possible benefits and risk, both financial and strategic implications should be taken into consideration to achieve optimal results.

From above discussed aspects a concept of outsourcing can be formed. Outsourcing aims to business improvement. It is an activity that contains several sub-activities within it. It is related to specific assets and competencies. Also, it occurs in various arrangements that contain at least two parties sharing a relationship governed by a contract. Outsourcing can lead to several benefits that might also be hindered by several risks (Berthelemy and Quelin (2006)).

3.2 Outsourcing as a Process

According Sharp and McDermott (2009) define process by using following factors. Process can be considered as any collection of activities that produce predetermined results. Results of the process are distinctive and identifiable. Results must serve the “customer” of the process, in other words, satisfy the need it was created for. Process results should be measurable. Process has beginning and an ending. Process begins with triggering event and ends to results. Between the beginning and the ending is a body of activities that can are set of steps and decisions. Activities within the process can be depicted with workflow models (Figure 2). Workflow describes visually the sequential stages and decisions as well as their interrelations within the process. It also describes the actors and their responsibilities in the process. Workflow model is one of the enablers of the process that defines process performance.

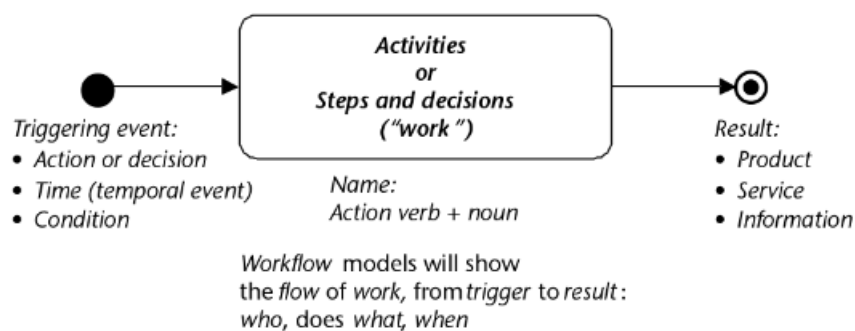


Figure 2. Components of process (Sharp and McDermott 2009: 45).

Benefits of process orientation is the ability to organize and focus work in way that predetermined results are accomplished. Process orientation allows alignment of activities to overall business strategies. Hence, processes can be utilized to create value. Process orientation enables measurement and development of activities and elimination of counterproductive work (Sharp and McDermott 2009).

In previous section, outsourcing was described as an activity that aims for certain objectives and contains several sub-activities within it. These sub-activities can be considered to be positioned in sequential stages that progress in logical order through any specific outsourcing activity (Figure 3). Also, outsourcing activities are restricted in time. Outsourcing activities begin from the initial assessment of specific outsourcing opportunities and end with termination of the created outsourcing relationship. Between these stages several activities occur, such as provider selection and relationship management (Momme and Hvolby 2002; Weimer and Seuring 2007).

Therefore, outsourcing can be considered as a process that includes several activities and decision points aiming for specific results in restricted timeframe. However, as processes should have beginning and an ending, outsourcing activities can be considered to be recurring because in the end of the process a decision has to be made whether to continue along the established relationship, search for a new one, or internalize once outsourced activities. In this sense, an outsourcing process can be defined as a reoccurring cycle (Franceschini et al. 2003; Momme and Hvolby 2002).

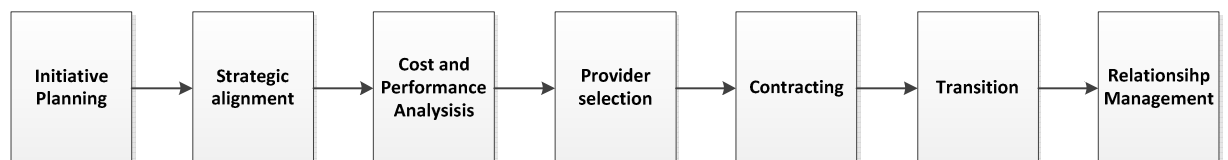


Figure 3. Outsourcing process (Greaver 1999: 18-19).

As seen from Figure 3, at a high level, outsourcing process can be depicted as seven sequential stages. Process begins with the planning activities and continues through the analysing phases to the provider selection and ends in a relationship management phase.

Importantly, an outsourcing process can span to a wide timeframe. During the outsourcing process, company's internal as well as external conditions may change. This makes outsourcing a dynamic process, as during the process outsourcing objectives may have

to be changed accordingly. As discussed in the previous section, outsourcing has implications beyond cost savings perspective that reach the strategic level of the company. Therefore, to support the company's strategic objectives, outsourcing activities should be aligned with the company's overall strategies at all stages of the outsourcing initiative. (Fill and Visser 2000; Sanders et al. 2007; Momme and Hvolby 2002; Mclvor 2000). Simultaneously, other objectives as well as risks should be taken into consideration in the decision-making at all stages of the process. Outcome of these decisions define the success of the outsourcing initiative as well as realization of various risks.

Business practice suggests that, when outsourcing, a clearly defined and structured outsourcing process is required to support decision-making within the process (Momme and Hvolby 2002; Rushton and Walker 2007; Weimer and Seuring 2007; Franceschini et al. 2003; Mclvor 2000). A clearly defined process is required for control and management, as well as for continuous improvement of outsourcing activities. Following requirements for the outsourcing process are recognized from the literature. In a given situation, process should provide guidance whether outsourcing is recommendable action to take. It should also recognize the dynamic nature of the outsourcing activities and align them to company's strategic objectives. It should have throughput mechanisms that aid in achieving the outsourcing objectives as well as means to mitigate risks. It should be logical and provide clear structural approach to those how manage outsourcing activities. Process should able planning and control of outsourcing activities at its all stages. It should provide feedback in the form of quantitative as well as qualitative information to aid in decision making. Process should contain measurements functions that measure internal and provider's performance. As all outsourcing initiatives differ and requirements change in time, it should also be generic in its nature. Also, it should provide help in answering the question whether to outsource or not, and in that decision take into account both economical, as well as strategic factors. In short, the process should provide normative recommendations of what to do, why to do, and how to do in different stages of outsourcing activities. In the next section, outsourcing process presented by literature is reviewed in more detail.

3.3 Review of an Outsourcing Process Presented by Literature

In this section, an outsourcing process presented by literature is reviewed. The outsourcing process is divided into seven stages depicted in the above in Figure 3. In each phase, main activities, objectives and possible input to other stages are explained.

3.3.1 Planning Phase

Planning phase begins the outsourcing process and is activated when task to assess outsourcing viability is received. Purpose of this phase is to scope the outsourcing initiative and assess preliminarily the viability of the outsourcing initiative. In this phase, outsourcing project is established, outsourcing objectives are defined and benefits and risks assessed. Preliminary assessment is necessary since outsourcing planning can require large amounts of internal resources, as it can have implications to several functions in the organization (Greaver 1999).

Project can be defined as a scheduled, time limited and mutually dependent set of activities that produce a unique solution (Maltzman and Epstein 2013). Project management is a set of knowledge, techniques, methods and tools required to achieve the objectives of a project. Tomczyk (2005) states that project planning requires several steps to be taken. First, the scope and the objectives of the project are defined. Second, a risk response planning of is conducted. Third, a project team with adequate skills is gathered and responsibilities are clarified. Fourth, cost estimate of the project and project budget is drawn. Finally, project schedule is structured. It is suggested that outsourcing initiatives are considered as projects and managed by project management methods to ensure desirable outcomes.

In outsourcing initiatives, the project team should be built as a cross functional team. Outsourcing can affect large parts of the organization and have indirect affects to the functions that are not in the outsourcing scope. Therefore, to assess implications of outsourcing comprehensively, all possible functions should be considered. Skill level of the team is also important. Knowledge related to the outsourcing field should be ensured, as well as knowledge in other fields, such as law and human resources. Use of outside specialists such as outsourcing consultants can be beneficial if the company's internal capabilities on the matter are insufficient. Also, project itself should have an adequately skilled project manager (Momme and Hvolby 2002; Greaver 1999).

Setting objectives and the scope for the outsourcing initiative makes as essential part of the initiative planning phase. Without outsourcing objectives, the viability assessment of the outsourcing initiative cannot be done. Also, clarification of the exact reasons why outsourcing is considered and definition of the sought benefits by outsourcing is required

to set correct direction for the rest of the process. Scope of the outsourcing initiative relates to which part of the organization is considered for outsourcing. Clarification of the scope is also required for the viability assessment, and for the mapping of requirements for internal resources and information (Greaver 1999).

Initial risk assessment is also conducted as part of the initiative planning phase. In addition to generic project related risks, also risks related specifically to given outsourcing activity should be considered. Risk response plan should be drawn in advance to mitigate possible risks that might occur also later in the project. Project plan should also include a plan for change management that covers internal as well as external communication and confidentiality aspects. Finally, project plan should include project cost calculations. Cost calculations should include costs directly related to the project, such as project resources. Further analysis of economic feasibility regarding the outsourcing initiative is not conducted at this phase (Greaver 1999).

Objectives of this phase include the following factors. High management of the company should support the project and outsourcing initiative, including its scope and objectives. Support should be based on the assessment done by the high management whether the cost and risks of the project are worth the possible benefits of the outsourcing initiative. If the outsourcing initiative is supported, the project continues to the next phase. If not, the initiative is discontinued. If continued, this phase provides input to the next phase in forms of clearly defined and scoped outsourcing initiative as well as established project to manage the process further (Greaver 1999).

3.3.2 Strategic Alignment Phase

In the strategic alignment phase, outsourcing initiative is tested against the company's strategic objectives. As stated in the Section 3.1, to support the company's overall business objectives, outsourcing initiatives should align to company strategy (McIvor 2000). Aim of this phase is to provide guidance to the decision whether to outsource or not based on company's strategic factors, as well as specifying the outsourcing initiative's scope for the later phases. First, current strategic factors are reviewed, and then outsourcing initiative is specified. After specifying the outsourcing initiative, it is tested against the company strategy (Greaver 1999).

To align outsourcing initiative to the company's strategic objectives, clarification of the current company strategy is required. In this context, definition of the company's future vision is used to define strategic objectives. Strategic vision can be described as something that sets direction to the company. It provides a specific long term goals that the company tries to achieve and by which company aligns its resources and actions. Future vision is required to ensure that the outsourcing activities are aligned and support the company's long-term objectives (Collins and Porras 1996; Greaver 1999).

As another strategic factor, core competencies and company's value chains are to be specified. These factors can be considered as a mean to create unique competitive advantage. Sustainable competitive advantage of a company enables it to achieve above-average performance in relation to its competitors in the market place. Competitive advantage is created by adding value to company's end customer. Company's core competencies and value chains are the basis of differentiation and cost leadership that produce sustained strategic competitive advantage (Porter 1996; McIvor 2000).

Definition of core competence was reviewed in the section 3.1. It can be stated to be set of resources within the company that create unique customer value (Quinn and Hilmer 1994). In this phase of the process, it is relevant to define core competencies, since outsourcing them is not suggested. That is because core competencies are the basis of profitability and market position of a company, and can even be regarded as prerequisite to the company's existence. Lending control of them to external provider poses significant business continuity risks (Arnold 2000; Momme 2002).

Value chains relate to those activities within a company that together produce unique value to the end customer. Thus, value chains are basis of competitive advantage (Porter 1996; McIvor 2000). By analysing and differentiating value chains from other activities of the company, specific tasks that produce competitive edge can be recognized, as shown in Figure 4 below.

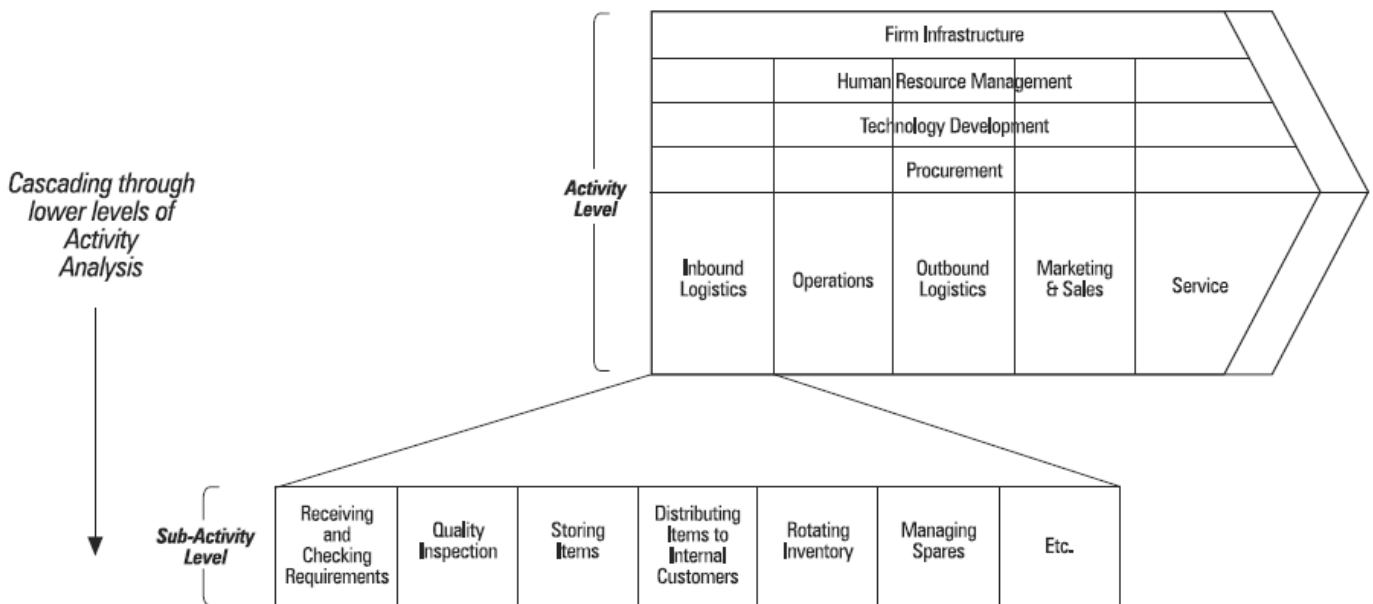


Figure 4. Value chain analysis (McIvor 2000: 31).

In outsourcing decisions, analysis of value chains is important since the outsourcing target may be part of a larger value chain that is not clearly visible. Combining value chain activities with the core competence theory, critical activities within the company can be recognized (McIvor 2000). Thus, particular attention can be given to these activities when considering whether to outsource or not.

As a strategic factor, company's supply network strategy should be considered. Supply networks are formed out of several organizations that are interconnected in upstream and downstream connections and which in unison create value to the end customer. Supply network strategy aims to ensure long term benefits for a company as a member of a supply network. Supply network strategy considers company's relationships with other members of the network. It aims to understand the dynamics within the network and determine suitable use of resources. As part of supply network strategy, determination of the company's boundaries is made. Company's boundaries define what activities the company performs itself and what not. Position of company's boundaries within the network is known as level of the vertical integration. In supply networks, companies base their decisions of the level of vertical integration on their case specific business and performance objectives. Decision regarding the vertical integration include the direction and

the extent of the integration. As a result from this decision, companies may either integrate other parts of the network, or outsource some parts of their own. All outsourcing initiatives should align with company's desirable level of vertical integration (Greaver 1999; Slack and Lewis 2008).

To align outsourcing initiative to aforementioned strategic objectives, the outsourcing initiative has to be specified further. This includes specifying the scope of the outsourcing initiative, defining preferred relationship model as well as desired contract length (Fill and Visser 2000; Rushton and Walker 2007; Greaver 1999).

Greaver (1999) uses activity level as a basis for defining the scope for outsourcing activities. In *individual activity* level, a single employee post is outsourced. Accordingly, in *functional activity* level, single function of a company is outsourced. In *process activity* level, entire process is outsourced. This is also known as business process outsourcing, where a total value chain, usually non-core, is taken over by external provider (Krstic and Kahrovic 2015). According to Sanders et al. (2007), scope of the outsourcing arrangement refers to the extent of decision rights assigned from the outsourcing company to the service provider. The wider the scope is, the more control the service provider has over the outsourced activity. Following division is made between different outsourcing arrangements based on their scope, beginning with the activity with smallest scope. *Out-tasking, co-managed services, managed services and full outsourcing*.

As outsourcing scope vary in assigned decision rights and breadth of activity, the scope has implications to the relationship model (Kakabadse and Kakabadse 2005; Sanders et al 2007). Other affecting factor is criticality of the activities. Criticality of the activity refers to how critical the outsourced function is to the outsourcing company, and how much potential business risk is related to the outsourcing those activities. The closer to the core activities outsourced function is, the more critical it becomes to the outsourcing company. Outsourcing scope and activity's criticality exists in correlation. Activities with smaller scope possess less business risks to the outsourcing company, whereas ones with larger scope contain more business risk. Dimensions of scope and criticality have implications to the relationship model and to the required level of integration between the parties. Sanders et al. (2007) uses four categories of relationships based on the aforementioned dimensions of scope and criticality, as shown in Figure 5 below.

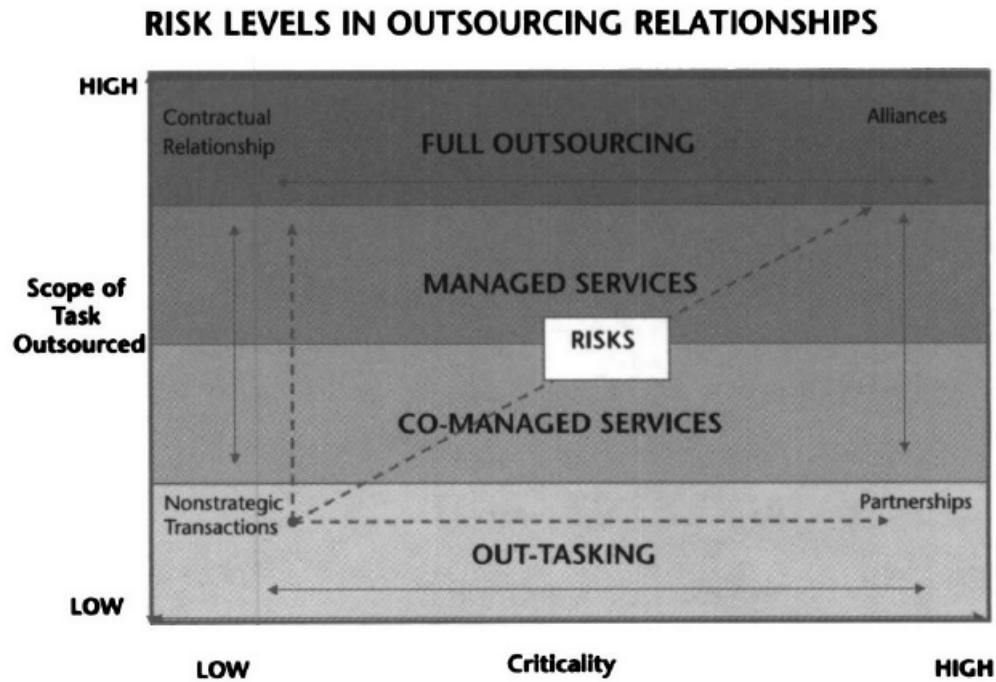


Figure 5. Outsourcing relationships (Sanders et al. 2007: 11).

As seen from Figure 5, both scope and criticality of the activities define the relationship model. The four relationship models, beginning from smallest scope, criticality and required level of integration are non-strategic transactions, contractual relationships, partnerships, and Alliances (Sanders et al. 2007).

Franceschini et al. (2003) state that the relationship model should be defined based on the factors of specificity and complexity (Figure 6). Specificity relates to how special the assets required to perform the outsourced activities are. It also refers to the aforementioned dimension of criticality. Complexity relates to how difficult the contract is to form and control the relationship because of the conditions of the outsourced task.

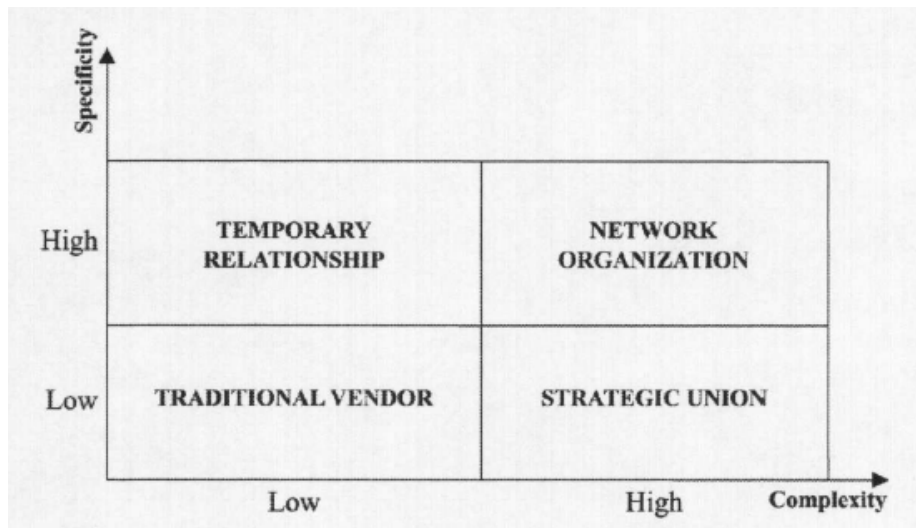


Figure 6. Relationship models based on factors of specificity and complexity (Francheschini et al. 2003: 251).

In Figure 6, four relationship models are presented in their relation to specificity and complexity. Presented relationship models are *traditional vendor*, *temporary relationship*, *strategic union* and *network organization* (Francheschini et al. 2003).

Sought after relationship model can also be assessed based on the supplier dedication to the outsourcing company. (Rushton and Walker 2007; Van Weele 2014). On this basis, the outsourcing arrangements are divided to dedicated and multi-user services. In dedicated services, the supplier is solely providing specified services to the outsourcing company. In multi-user services, the supplier has also other clients to serve. In terms of cost and service level, by using dedicated solution the supplier can offer better services to the client company by specialization, but at higher cost. In multi-user environment, outsourcing company can benefit from lower costs induced by economies of scale but generally, the level of service specialization is lower.

Desired contract length is discussed next. Quinn and Hilmer (1994) argue that dependency exists between desired relationship length and relationship model. When outsourcing relationship possess high vulnerability to company's business, or in other words, outsourced functions are critical to the company, high control is needed in the relationship. Highest need for control relates to rejecting outsourcing and maintaining internalization (Figure 7).

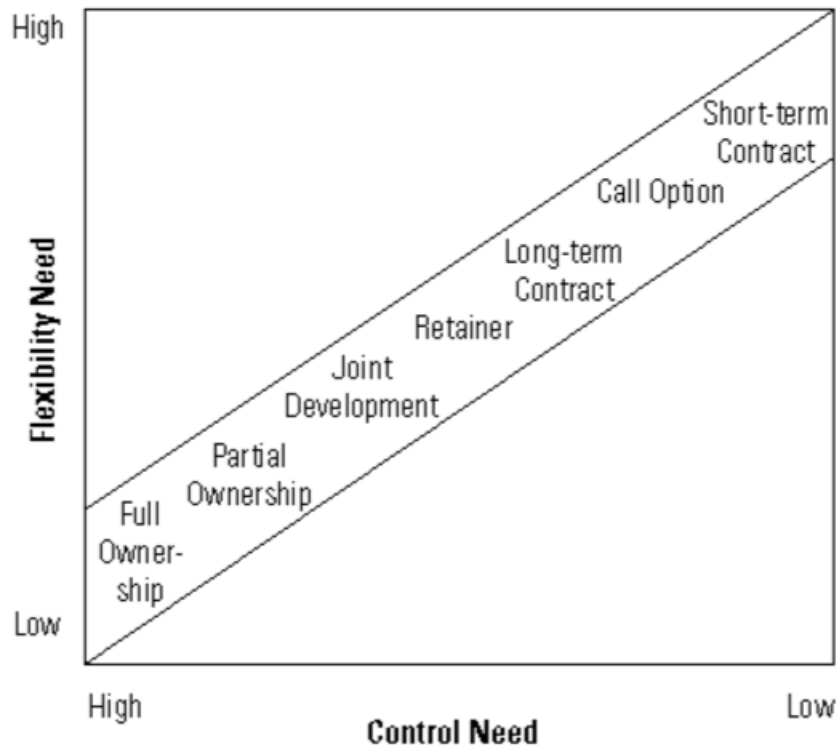


Figure 7. Contract relationships and contract lengths (Quinn and Hilmer 1994: 50).

As can be seen from Figure 7, when need for control increases, also the relationship length increases. Accordingly, increased flexibility lowers the requirement for length of the relationship (Quinn and Hilmer 1994). The outsourcing spectrum (Figure 8) presented by Fill and Visser (2000) also states that criticality of the outsourced task influences the relationship length.

The outsourcing spectrum

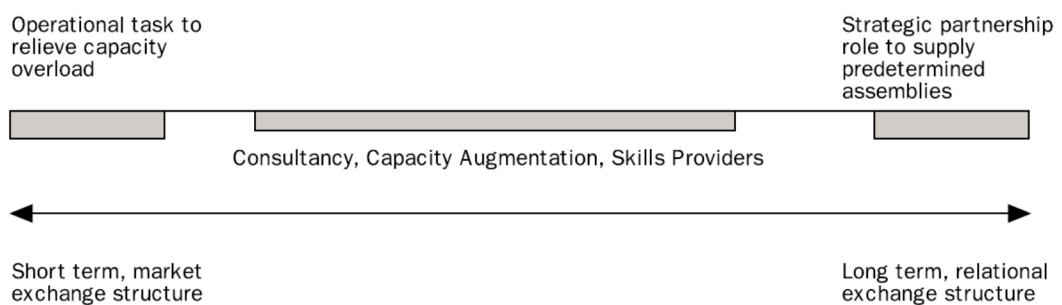


Figure 8. The outsourcing spectrum (Fill and Visser 2000: 44).

Figure 8 states that when relationships are more strategic, or outsourced functions are related competitive edge of the company, long-term relationships are induced. Short-term relationships are induced by non-core operational tasks (Fill and Visser 2000).

Objective of this phase is to align the outsourcing initiative to the company's current strategic factors by conducting a comparison. If the initiative is aligned with the strategy, process continues to the next phase. If not, outsourcing initiative is either rescope and then again reviewed with strategic factors, or discarded entirely. As input to the next stage, this phase provides scoped outsourcing initiative that can be reviewed based on its cost and performance factors (Greaver 1999)

3.3.3 Cost and Performance Analysing Phase

The previous phase of the process specified the outsourcing initiative further, and assessed outsourcing decision based on strategic factors. This phase reviews cost and performance factors of the function in the outsourcing scope (Greaver 1999). Current and future costs as well as performance factors are specified to gain understanding on the economic viability of the outsourcing decision. At this stage of the process, exact costs induced from outsourcing are not known, since providers have not been contacted yet and therefore their pricing is unknown. However, analysis of current and future internal costs and performance should be done at this stage to set specific standards and as a preparation for the provider assessment in the following phase (Greaver 1999).

Analysis of the current internal costs requires reviewing costs structure further than what is stated at the financial statements. This is because processes within organization may have different workflow interfaces and influence to other processes, and thus form inter-related cost affects. Generally, when outsourcing, it is rare that all costs factors related to the outsourced function are transferred to the external provider. To gain precise comparison to the outsourced option, all cost factors should be included to the assessment (Momme 2002; Ozlem et al. 2006).

Costs induced by producing a product or service can be divided into three factors. These are direct labour costs (DL), direct material costs (DM) and overhead costs. The value added of the product or service consists of these three factors. Of these three, DL costs and DM costs are more easily calculated, as they are generally directly related to the

function at hand. To assess OH costs, as they are more indirect, such as costs of management, can be more difficult to assess. Activity based costing (ABC) can be utilized to help define and allocate cost drivers of a given function, especially the indirect OH costs. ABC analysis is based on three principles; object of costs consumes activities, these activities consume resources, and consumption of resources drives costs. ABC process comprises of five stages; identification of cost pools and drivers, identification of activities, linking activities into outputs, allocating costs to activities, and determining the cost for certain product or service (Ozlem et al. 2006). Key factor in ABC analysis is to form a process chart of the function that is reviewed (Figure 9).



Figure 9. Simplified model of process chart for ABC analysis (Ozlem et al 2006; Greaver 1999: 127-168).

By forming the process chart, process in scope and its constituents seen. Using the chart in ABC process, each ratio of DL costs, DM, costs, and OH costs can be defined. (Ozlem et al. 2006).

Assessment of the change in function's cost structure in the long run can done by using activity based costing combined to a life cycle costing analysis (LCCA). In LCCA, after defining each cost factor by using ABC, future projections can be made to each cost factor. In LCCA process specific economic components are defined that affect the function in scope and cost factors within it. These can be for example future variations in interest rates or changes in demand that affect the output volume. Economic factors can be then used to assess cost changes during the product or service lifecycle, or in the lifecycle of the pursued outsourcing arrangement. Economic factors are case specific and should be formed as part of the planned future scenarios. To assess effects of outsourcing, same economic factors and projections can be used, by assessing how factors change when operations are externally managed during the outsourcing arrangement (Ozlem et al. 2006).

Use of ABC and LCCA allows precise analysis of implications of outsourcing to each cost and economic factors. However, the assessment of outsourcing related cost changes should not limit to these factors. When outsourcing, hidden costs of outsourcing

can be easily forgotten from the economic evaluation (Garaventa and Tellefsen 2001; Maltz and Ellram 1997). Transaction cost theory presented in the section 3.1 reviews some possible indirect cost drivers that can occur from outsourcing. Transaction cost theory specifies four drivers for possible indirect costs. Bounded rationality relates to the natural human nature being limited to process required information. Opportunism relates to drivers for self-interest in partnering relationships. Small numbers bargaining lead to increased cost when infrequent bargaining situations occur related to small quantities. Fourth driver is the information impactedness, which relates to the asymmetrical distribution of information between the participants. Aforementioned cost drivers are related to the amount of asset specificity which the certain transaction entails (McIvor 2000). Other cost drivers also exist. Administrative costs are occurred from managing and monitoring the relationship and to the cost of forcing the contract. Human and ethical costs relate to the possible negative affects induced by outsourcing to the human resources within the company.

Performance measurement is used to add visibility and understanding to the decision making by providing objective feedback on the measured target. To assess current performance level of the function in the outsourcing scope, a set of key performance indicators (KPI's) should be used. To be efficient, KPI's should be linked to the most critical success factors of the process being measured. KPI's should be simple and unambiguous to all users. They should link daily activities to higher strategy and work as a basis for development. In outsourcing initiatives, KPI's should be linked to the objectives of outsourcing to provide clear information about the performance of the outsourcing initiative (Parmenter 2015).

After defining the KPI's, company's current internal performance is assessed on the basis how the performance affects the profitability of the activities. Also, future projections on performance are made. Performance related risks of internally performed operation as well as outsourced option should be mapped. Emphasis on this analysis should be on the induced cost by possible poor performance of both options (Parmenter 2015; Greaver 1999).

Current and future cost and performance analysis produces a structured view of the company's internal capabilities to perform the function profitably. From this analysis, can be deduced whether the current internal operations meet the desired standards, and what standards the future provider should be able to meet to make outsourcing a viable

solution. Also, from the analysis specific cost and performance related risks can be assessed and compared between in- and outsourcing options (Greaver 1999).

As an input to the later phases, this phase produces the preferred pricing model. Different pricing models exist with different benefits such as fixed and unit price agreements, hybrid unit price agreements, cost-plus agreements, open-book agreements and ever-green agreements. Each of these are not looked further in this context. In addition to preferred pricing, cost and performance analysis produces key performance indicators that can be used to assess provider performance in the selection stage, as well as for monitoring the selected provider's performance in the operational phase (Rushton and Walker 2007). Decision criteria of this phase consists of consideration of the risks and benefits related to cost and performance when comparing internally performed activities to outsourcing. If outsourcing is considered too risky, or internal performance is thought to provide competitive edge beyond the provider markets' level, outsourcing process is discontinued and the activities kept internal. If outsourcing is still assessed as an option where economic benefits could be gained, the process continues to the following phase (Figure 10).

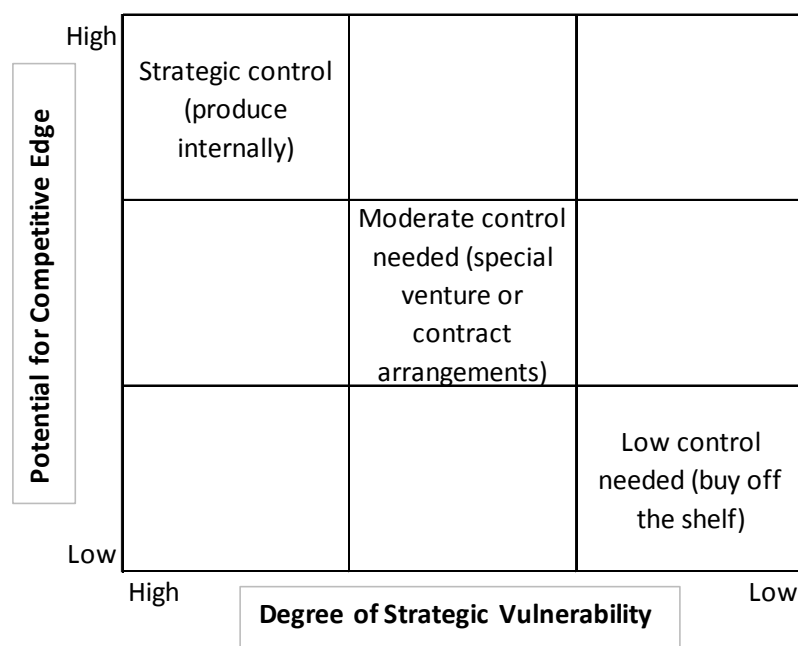


Figure 10. Competitive advantage versus strategic vulnerability (Quinn and Hilmer 1994: 48).

Figure 10 depicts the decision variables of outsourcing decision based on competitive edge and strategic vulnerability. In this context, competitive edge represents the possible cost and performance related benefits compared to market provision. Strategic vulnerability relates to cost and performance risks related to outsourcing, but may also include other strategic risks such as possibility of losing core competencies (Quinn and Hilmer 1994).

In this phase, after reviewing cost and performance factors as well as strategic issues in the previous phase, other possible development methods and transformational tools can be reviewed. Other development methods can be assessed instead of outsourcing to further clarify whether outsourcing is the suitable tool to be used for achieving desired goals. Other business development tools are not reviewed in detail in this context, but following tools can be named; total quality management, lean, business process reengineering and Six Sigma. Closest to the outsourcing is business process reengineering, which can be defined as fundamental rethinking and redesigning business processes leading to dramatic improvements (Slack and Lewis 2008).

3.3.4 Provider Selection Phase

This phase reviews the provider selection method that aims to selecting best suitable service provider to a given outsourcing initiative. First, general aspect related to provider selection are looked into, and then, a method for provider selection is reviewed.

Advanced selection practices enable increased profitability, quality, and provider performance later in the stage of client - provider cooperation (Ittner et al. 1999). Provider selection rationale can be reviewed through three separate theories. Transaction cost theory discussed already in section 3.1 states that such provider should be found, which enables relationship of best economically viable governance model. This includes also non-price qualifications in the form of transaction costs, suitable level of asset specificity and accepted level of internal as well as external uncertainty. Such provider is selected that provides the greatest amount of value. Second theory relates to certificating. Such provider should be selected that after extensive research and auditing can be considered suitable to provide necessary quality and capabilities, and thereby is certified as a trustworthy provider. Provider certificating allow increased trust in provider's capabilities as well as decreases the need for monitoring. Certificating also increases the level of coop-

eration. Third theory relates to communication skills. As communication is pivotal success factor of any outsourcing relationship, such provider should be selected that can ensure the commitment to communication between the parties.

Although a specific method for provider selection is introduced later in this section, some general aspects are to be taken into consideration in the provider selection. These aspects can induce risks in the later phase of the cooperation. Company size of the provider and the outsourcing company has implications to the outsourcing arrangement. If the provider company is significantly smaller than the client company, it may not have capacity related problems delivering the agreed volumes and promised quality. In the other hand, if the provider is bigger in comparison, it may decrease the bargaining power of the outsourcing company and lead to over dependency (Quinn and Hilmer 1994; Lonsdale 1999). Problems may also arise regarding the number of the providers in the market. If several providers exist and providers markets are well saturated, outsourcing company is likely to have required bargaining power to be able to negotiate effectively in the tendering process. Also, outsourcing company is unlikely more efficient in producing the services compared to highly competitive markets.

However, if the number of providers is low, again the provider may gain too much power leading to realisation of performance related risks and over dependence. Sanders et al. (2007) present two risks that are also to be taken into account before the selection. Proprietary risks relate to the confidentiality issues of the operation. If the provider has other clients in the same field of operation to which it also provides services, these clients can be competitors to the client company. Provider may leak essential information to the client's competitors. This risk is especially relevant when outsourcing functions with strategic importance. Other risk, the contention risk, relates to the provider having too many clients and forcing it to divide resources between them. This may lead to poor provider performance and unfavourable client prioritization. A factor that is also to be noted in this stage is the potential number of suppliers. Even though if not intended at first, if the selection process leads to selecting multiple supplier instead of one, this can have significant increase in the indirect costs of outsourcing (Franceschini et al. 2003)

Next, the process of supplier selection is looked into. Objective of the process is to learn and gather information as much as possible about the possible providers to support the supplier selection decision. Before initiating the provider search activities, a provider selection criteria are drawn. Criteria are used to define the required qualities of the provider

by a set of different attributes. Criteria is a set of quantitative and qualitative factors that have different weightings based on their importance to the outsourcing decision. Criteria should be essential and relevant to the outsourcing objectives. According to Vagadia (2012), provider selection process is fairly easy if properly planned outsourcing decision process or method has been utilized prior to the provider qualification. Proper outsourcing decision process that has prioritized the requirements for the outsourcing arrangement can be used as such as a template for provider selection criteria. In this process, this was done in two previous phases by strategically aligning the initiative objectives and by setting cost and performance objectives (Vagadia 2012; Rushton and Walker 2007; Greaver 1999).

The process continues by recognizing possible service providers at the current provider market that are estimated to be capable of delivering sought after services. The actual provider search process that forms the long list of possible providers is not looked into in this context. Once a group of relevant candidates are selected, requests for information (RFI) are drawn and sent to the providers. The RFI's introduce provider to the opportunity and specifics of the selection process at hand. Most importantly, before going further in the selection process, it acquires initial information whether the given provider is interested to provide services. Also, it preliminarily acquires information about the provider's capabilities, and is therefore based on the selection criteria (Rushton and Walker 2007; Greaver 1999).

From the responses to RFI's, provider candidates are shortlisted and to the remaining group a request for proposal (RFP) is sent. Request of proposal is an essential part of the selection process, since by RFP the providers provide information and detailed data about their capabilities to the possible client. The assessment of the suitability of each provider is based on this information. The RFP sent to providers by the client includes the following information; scope of the sought-after services, reasons to outsource, performance requirements and key performance indicators, preferred pricing models as well as other possible terms and conditions. Based on the responses to the RFP's, the selection criteria are used to assess which provider is best suited for the specific outsourcing arrangement.

After assessing the candidates based on the RFP's, an update to the outsourcing decision process is made. The capabilities and performance available at the market are reviewed and compared to the requirement standards defined earlier in the process. Then,

viability of the outsourcing is once more assessed. If outsourcing decision is confirmed still to be viable, final stage of the selection process, a due diligence process is initiated. Due diligence process confirms provider's capabilities suitability further by validations and audits of providers processes along with other activities needed for required level of confirmation. This phase ends when suitable provider is selected (Rushton and Walker 2007; Greaver 1999).

3.3.5 Contracting Phase

Contracting phase reviews the process of forming a contract between the outsourcing company and the service provider. This phase aims to create a beneficial contract for both parties. Also, in this phase the final decision whether to outsource or not is made by the outsourcing company (Greaver 1999).

A contract can be described as a legal agreement that represents an ongoing relationship between the client and the provider. (Logan 2000; Barthelemy and Quelin 2006). By the contract, both parties aim to be farsighted in the oncoming relationship by interpreting possible future events, possible risks that are induced by those events, and device factors that mitigate those risks. Contract consist of clauses that describe several possible elementary events within the relationship and equivalent elementary actions to them. Contract defines obligations, incentives, rewards and penalties of the partnership of the both parties.

Basic factors that are included to outsourcing contracts are the scope of outsourced services including decision rights, performance standards in forms of service level agreements, pricing schedules, and other terms and conditions. Other terms and conditions may include, but are not limited to, factors such as management and control methods, transition provisions related to asset transfers and contract termination clauses (Greaver 1999; Franceschini et al 2003). Service level agreements are essential part of the contract. In service level agreements, desired service levels of the cooperation are defined. It is a statement of commitment to which required provider performance is based on and which acts as a basis for the provider monitoring during the relationship.

Forming the contract is a critical part of the outsourcing process as it works as a basis for the rest of the client – provider relationship. It is important to understand the basic success factors of the oncoming relationship and incorporate them in to the contract. To

ensure successful relationship after contracting, contract must be beneficial for the both parties of the relationship. If the relationship is based on mutual benefits, the risk of partnership failure and opportunistic behaviour is decreased. The client is expecting to receive value adding services and gains access to the strengths and skills in the supply market.

On the other hand, provider is expecting to receive profits from adding value to the client's processes (Deckelman 1998; Logan 2000). The contract should be basis for building trust, which is achieved by mutual fairness of the relationship. The contract must be fair to both parties and deny exploitation within the relationship from either party. Therefore, intentions, needs and expectations of both parties' need to be clearly articulated in the negotiations stage and assured that they are included to accordingly to the contract. Prior to negotiations, a clear understanding of the key terms of the contract needs to be established. From these key terms a term sheet should be drawn that can be used as mean to articulate each parties' requirements within the negotiations.

In addition to ensuring both parties clearly articulated requirements, other aspects also need consideration in the contracting. As open and fluent communication between the participants is a basis for successful relationship, the contract should include incentives as well as necessary clauses related to communication during the cooperation. To allow trust, necessary means to resolve emerging disputes during the relationship should be included. Also, aspect of flexibility should be also considered. Flexibility in the contract allows for beneficial cooperation even though internal and external conditions of the participants may change during the contract period (Deckelman 1998).

However, a factor to be taken into consideration during the contracting is the possible costs induced by the contract during the relationship. Ex post costs refer to the costs induced after contract assignment such as monitoring and contract enforcement costs (Barthelemy and Quelin 2006). According to transaction cost theory, the outsourcing decision is based on the level of asset specificity and uncertainty within the transaction. If the asset specificity and uncertainty is high, activities are kept internal for risk aversion. To allow outsourcing and its benefits even with certain amount of asset specificity and uncertainty present, contracts are drawn to mitigate risks that would otherwise deny outsourcing. However, by their nature all contracts are incomplete. This is due to the fact that future events affecting the relationship cannot be predicted accurately. Therefore, as the predicted risks increases, the complexity of the contract increases. Complexity of

the contract relates to the extent to which contract contains detailed clauses related to specific scenarios. Complexity of the contract is the factor that can induce ex post costs. As the complexity of the contract increases, so does the contract monitoring and enforcing costs. This might have implications to the profitability of the outsourcing arrangement. Therefore, excessive contract complexity is to be taken into consideration when attempting to mitigate possible risks by adding complexity to the contract.

Within the outsourcing process of this framework, the objectives and terms for the contract are drawn from the previous phases of the process. Scope of services, relationship model, performance and cost requirements and other possible factors that form the requirements for the term sheet are conducted from the previous phases. If the objectives set for the contract are met, the contract is assigned and thereby outsourcing is initiated. Therefore, contracting process in this phase provides the last input to the decision process of whether outsourcing is viable option or not (Greaver 1999). If the final decision to outsource is made, the process continues to the transition phase which is reviewed in the following phase.

3.3.6 Transition Phase

In this phase, after assigning the outsourcing contract and making the final decision to outsource, the activities within the outsourcing scope are transferred to the provider. Transition of the activities is an essential part of the outsourcing process. It begins the client – provider relationship and contains first activities that are to be completed in cooperation. Hence, the transition process can set the tone of the rest of the relationship (Vagadia 2012).

Depending on the situation at hand, the transition process includes transferring several physical and non-physical factors to the provider. These include facilities, equipment, hardware, as well as required software or any other required factors of production. Transfer of decision rights and responsibilities is conducted. Transfer may also include human assets, which requires special attention and planning for the transfers to be successful. In reorganizing activities related to outsourcing, employee responsibilities or employer company may change, which can lead to disengagement or resentment. Ensuring that the critical human resource remain in the company is one of the most important factors to consider in the transition (Vagadia 2012; Greaver 1999; Momme 2002).

In addition to transfer of assets, change is essential part of the transition. As responsibilities of the activities are transferred to the provider, also internal responsibilities and workflows within the outsourcing company change creating new internal and external interdependencies. Information technology and systems may require change in order to work in the new setup. Also, if the company is new to the outsourcing arrangements, the possible need for a cultural change within the organization is to be taken into consideration.

Knowledge transfer is important part of the transfer activities. Knowledge transfer is a precondition to outsourcing company's access to the capabilities of the provider, and integration of the provider to the outsourcing company's value chain. The learning curve can be steep for the provider, as contents of knowledge may vary from strategic issues to highly detailed technical specifications. Also, within companies, especially at the operational level, intercompany connections and interfaces may become complicated and information sharing might be hindered by the internal attitudes resisting the change. (Momme 2002; Vagadia 2012).

As mentioned, transferring activities include several interrelated and critical tasks that need to be taken into consideration. These tasks need to be completed successfully to ensure realization of benefits sought from outsourcing. These tasks also include several risks for the both company. Therefore, to ensure adequate planning and control, it is suggested that the transition is managed as a project (Figure 11). In the context of the outsourcing process, this phase marks the ending for the outsourcing project established in the initiative planning phase, and a beginning of the transition project. It is recommended that the transition project is managed by and gathered from the same team that is responsible for the relationship management. Relationship management team consisting of members from both companies should take over the responsibility of the outsourcing process, to assure that key members of the future relationship are acquainted to the new operating model as early as possible. This allows forming of an effective intercompany governance structure (Vagadia 2012; Greaver 1999).

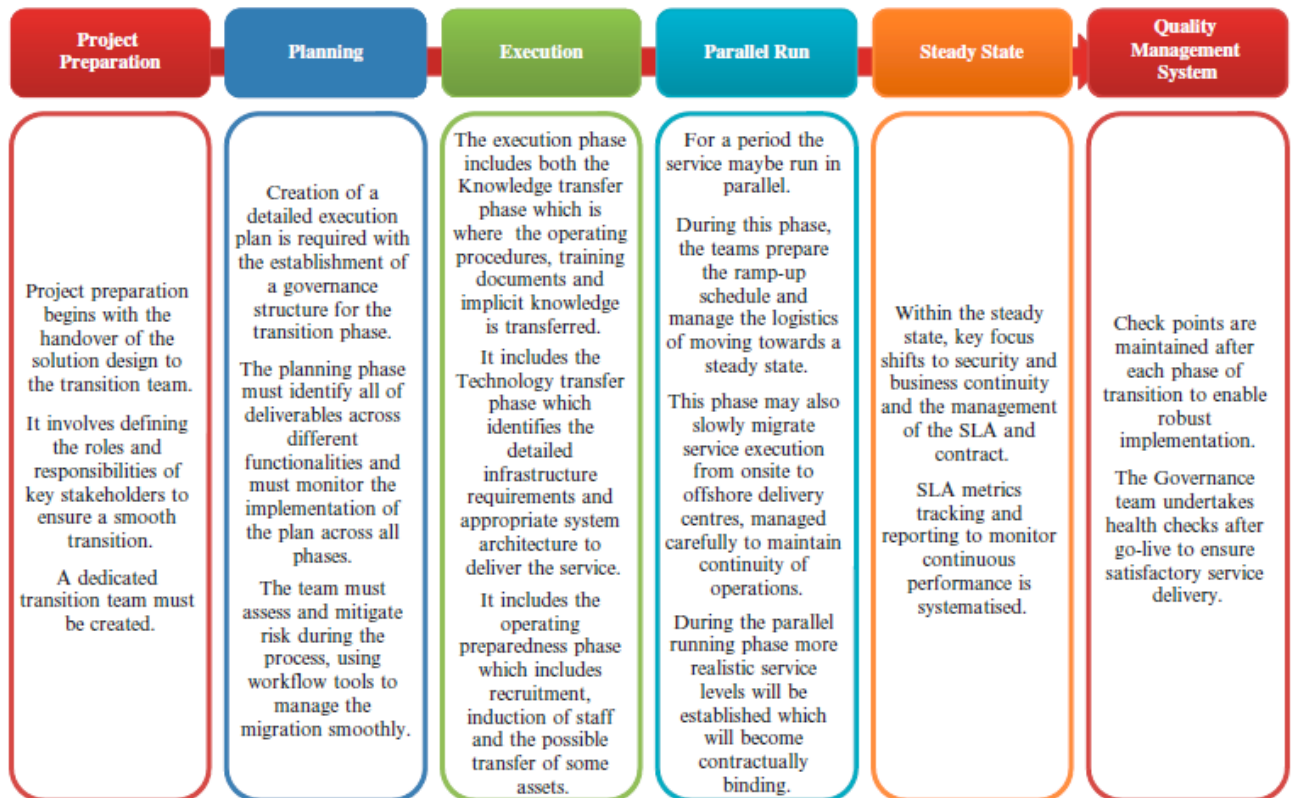


Figure 11. Transition process (Vagadia 2012: 101-131).

As can be seen from Figure 11, the transition process is divided to six stages. The transition should be conducted as a project in coordination with the provider and include necessary planning, change management, communication and risk prevention activities (Vagadia 2012). Next and final phase of the outsourcing process of the framework introduces the phase of the relationship management.

3.3.7 Relationship Management Phase

In this phase, factors related to outsourcing relationship management are reviewed. Activities that are included in managing outsourcing relationship are looked into and factors that are incorporated to the successful relationships are reviewed. Finally, aspects related to the ending of the outsourcing arrangement are analysed.

As stated in Section 3.2.4, several different relationship model exists with variety in their scope and criticality. Whichever the model is, for both outsourcing parties' objective is to

gain benefits from the arrangement. Lambert et al. (1999) define partnering relationships as follows:

“A tailored business relationship based upon mutual trust, openness, shared risk, and shared rewards that yields a competitive advantage, resulting in business performance greater than would be achieved by the firms individually.”

To achieve set goals, outsourcing relationships require management. Managing outsourcing relationships entail several activities. Measurement and monitoring is one of most critical. By monitoring, realization of agreed service level and costs can be assessed. Monitoring should be based on performance metrics specified in the service level agreement during the initial contract, and reflect the fundamental objectives of outsourcing. Several approaches to cost and performance measuring exists, such as balanced scorecard and supply-chain operations reference (SCOR). Continuous development of relationship is also relevant factor in relationship management. Relationship development can induce further efficiencies during the contract period from the originally agreed service and cost levels and thus benefit both parties. Finally, means of adequate communication must be ensured.

Communication is the basis for seamless continuity of business for both parties, prerequisite for new business opportunities, and most importantly, prerequisite to mitigation of disputes between the parties (Lambert et al. 1999; Rushton and Walker 2008). Without management, despite proper outsourcing decision process, the outsourcing initiative can fail. Literature contains several reasons that can cause failure in relationships. These include, but are not limited to, lack of trust and understanding between participants, lack of managerial support, lack of shared objectives, misspelled objectives, misconception between participants regarding the amount of required relationship management between the participants, poorly drawn service level agreements, and lack of continuous improvement

Lambert et al. (1999) propose a prescriptive model for relationship implementation and development. They (Lambert et al. 1999) propose that it prevents risks that are inherent to client – provider relationships as well as enables success factors to emerge. It also considers the level of integration between the parties and adjusts the level of needed management accordingly (Figure 12).

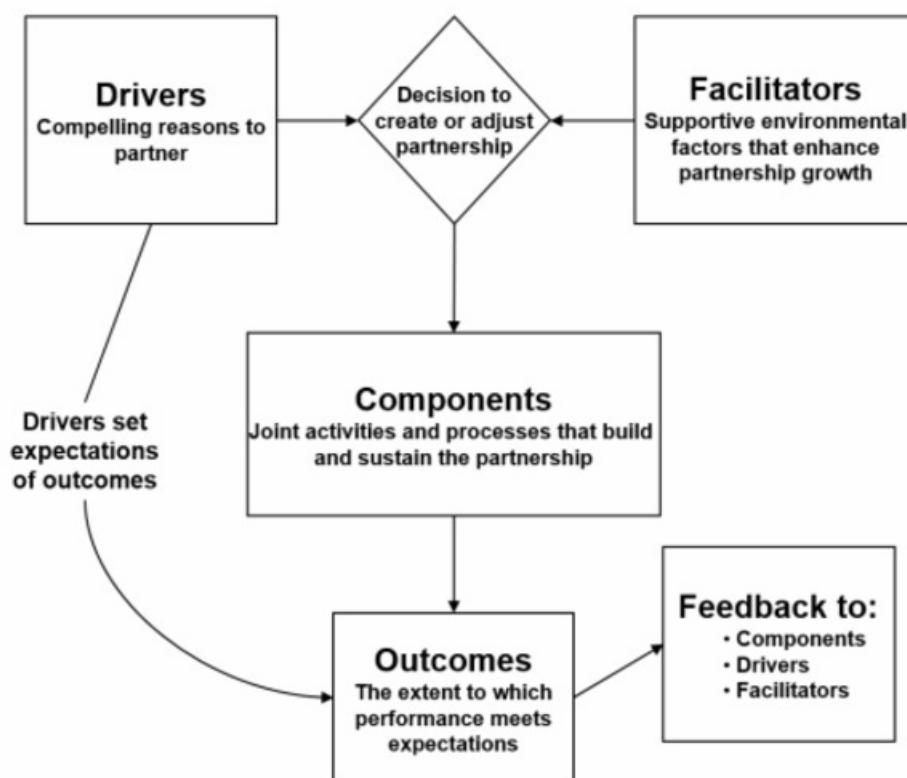


Figure 12. Relationship management and development model (Lambert et al. 1999: 168).

According to Ittner et al. (1999) and Lambert et al. (1999) the relationship model and the level of integration within it correlate with the level of management required.

Model presented in Figure 12 consists of following factors. Drivers of the relationship are the reasons why participants are in the relationship. For the success of the relationship, both parties must receive adequate benefits from the arrangement. Facilitators provide environment of support to the relationship and are factors such as corporate compatibility and physical proximity. Together drivers and facilitators induce creation or adjustment of the relationship that leads to joint activities that are called components. Components are regarded as management activities that ensure the success of the relationship. These are for example building trust, ensuring communication, sharing risks and rewards, joint planning and joint operations control (Lambert et al. 1999; Jonsson and Zineldin 2003). The level of required management components depends on the degree of integration between the participants. Management activities lead to outcomes of the relationship,

which are then measured and necessary feedback is provided back to each component. Thus, the model allows continuous development of the relationship.

As stated in section 3.1, by their nature, all outsourcing arrangements are dynamic in their nature. This is due to the fact that external business environment is continuously changing and also internal changes within the outsourcing company are possible. Therefore, in addition to continuous measurement by performance indicators, a strategic alignment of the outsourcing initiative to the company's strategy should be ongoing process. Corrective measures have to be implemented if misalignment is occurring within the possibilities allowed by the contract. Question of strategic alignment also occurs when decision about the continuation of the contract is at hand.

To provide information to this decision, quantitative as well as qualitative factors should be considered. Quantitative analysis consists of assessing the real benefits of established outsourcing arrangement by economic factors. This should include all cost related to the specific outsourcing arrangement such as the cost of the decision and planning process of the initiative, transition to the provider, and operational costs. Cost should include direct and indirect costs as well as assessment of costs induced by poor performance.

Qualitative analysis includes strategic implications, such as how well the arrangement has served strategic objectives of the company. At the end of each relationship, generally three options how to continue exist. First is to continue with the existing provider, second is to contract with another provider and third is to take activities back to be performed in-house. Continuous monitoring and strategic alignment may provide information about the most beneficial option. However, if the internal and external conditions have changed drastically and sufficient information is not available for decision making, additional guidance is required. In terms of the outsourcing process presented here, this may lead back to the beginning of the process in order to gain further information for decision making in a controlled manner. As such, the outsourcing process presented here is recurring in its nature (Rushton and Walker 2008; Greaver 1999).

This phase ends the outsourcing process presented in literature. Outsourcing process was constructed of following seven phases; initiative planning, strategic alignment, cost and performance analysis, provider selection, contracting, transition and relationship

management. Each stage was reviewed by their contents and objectives. In the following part, conceptual framework of this thesis is presented.

3.4 Conceptual Framework of this Thesis

In this section, conceptual framework of this thesis is presented. Conceptual framework of this thesis is depicted as a generic outsourcing process and modelled as a process workflow (Figure 13). Conceptual framework is based on the theory related to outsourcing and outsourcing processes presented by literature (Momme and Hvolby 2002; Greaver 1999; Franceschini et al. 2003).

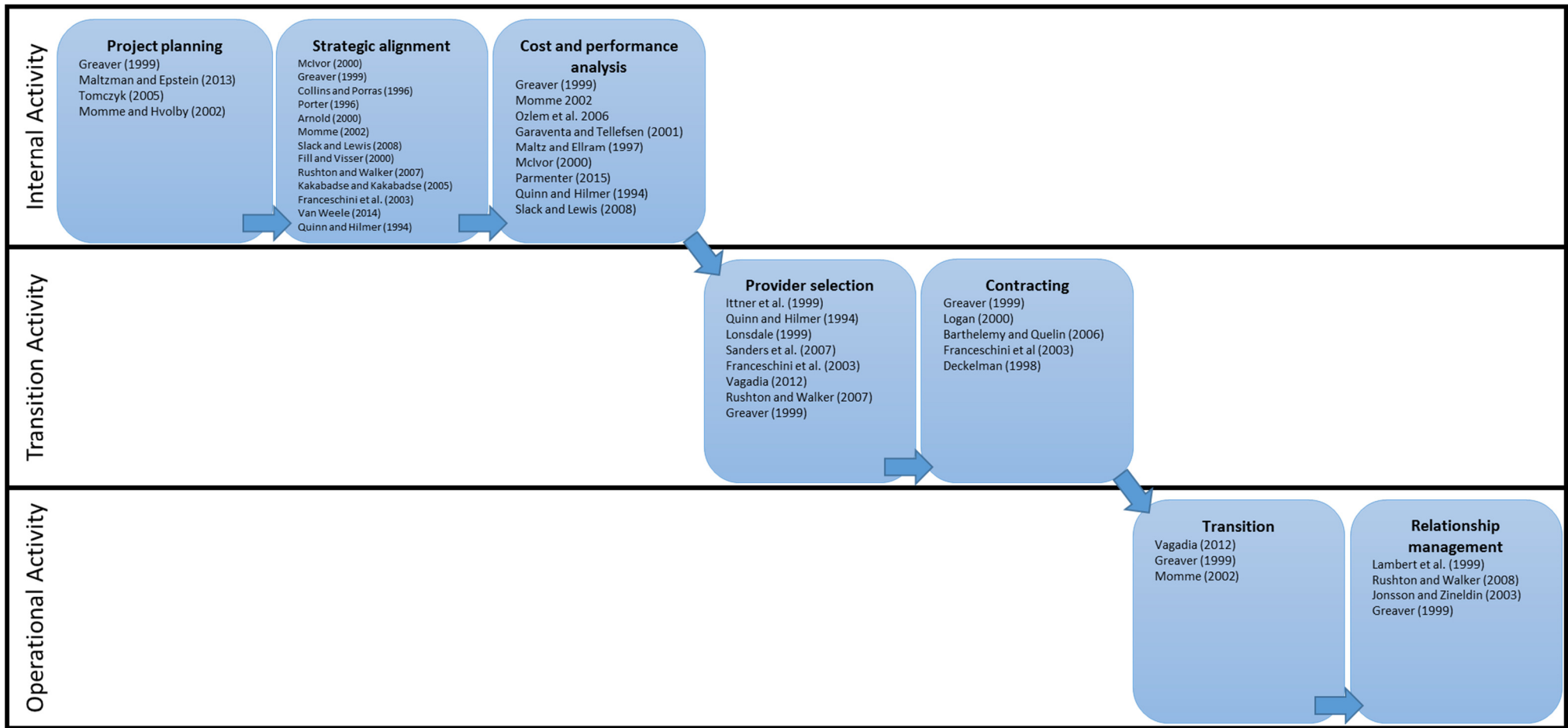


Figure 13. Conceptual framework of this thesis.

As presented above in Figure 13, outsourcing process is divided into seven phases across three activity levels. Process progresses in sequential order, where phases follow one another. As process progresses, each phase has specific objectives and can provide input to the next or some other phase of the process. Each phase also contains of specific decision criteria. If required decision criteria is not met, the process discontinues. Activity levels of the process depict the different nature of the activities in the process. Internal assessment activity occurs when company is assessing whether outsourcing is viable action to take from the viewpoint of internal aspects. External assessment activities follow the internal decision made whether to outsource or not, which after suitability of external service providers are brought to into consideration. If suitable provider is found and contract assigned, process continues to the operational phase. The scope of the process is defined so that the triggering event is external input to the process to assess viability of outsourcing of some specific function or activity.

In the following part, current state analysis on the case company is presented its results are compared to the practices presented in the literature.

4 Current State of Outsourcing Practices in the Case Company

This section reviews the current state of the case company regarding its outsourcing practices. First, overview of the current state analysis is discussed. Then, results of the analyses of the current outsourcing practices in the case company is presented. Results of the current state analysis form Data 1 of this thesis.

4.1 Overview of Current State Analysis Stage

Objective of the current state analysis is to clarify how outsourcing practices are currently performed at the case company. Also, current state analysis compares current practices within the company to the practices presented by the literature in the part 3 of this thesis.

As stated in Section 1.2, the case company does not possess a method or a process for outsourcing activities. Therefore, to map how outsourcing practices have been conducted in the company, a single outsourcing case from the past was selected for scrutiny. This case represents only one outsourcing occasion and as such, does not represent a standardized process, but gives an indication how the case company has handled outsourcing initiatives before. Reason for selecting this case was that other cases did not exist. Knowledge on this case was gained by interviewing the Head of Supply Chain (interviewee 1) at Kesko BTT's logistics function. Interviewee 1 was chosen, because he had been working as resource at the particular outsourcing case. Only one source of information was used because other sources of information were not recognized for the particular case.

Interviews were also conducted to gain understanding of the overall situation of the current case company and its implications to outsourcing practices. In the Kesko BTT's logistics function, the Head of Global Distribution Center Services (Interviewee 2) was interviewed. In addition, interviewee 1 was interviewed regarding this matter. Interviewees were selected by the fact that both interviewees are well acquainted to the logistics operations of the company, and to the implications that the current situation poses to the logistics operations. As well as interviews, also company's internal documents containing information about strategy and logistics guidelines were studied. Interviews and studied documents constitute the basis of Data 1 of this thesis.

The current state analysis was constructed as follows. First, the interviews were conducted and company's internal documents were studied. Second, the outline of the outsourcing practices in the case company were structured based on the outsourcing case. Third, knowledge from the outsourcing literature was used to compare how the outsourcing case compares to best practices of outsourcing. Presented by the literature. From the comparison, strengths and weaknesses of the outsourcing practices were recognized. The following sections analyses strength and weaknesses in more detail.

4.2 Current State of the Outsourcing Practices in the Case Company

This section reviews how outsourcing activities have been conducted in the case company in the past. An outsourcing case from the past is used as a reference. In the selected case, Kesko BTT outsourced its operational warehousing activities to external service provider. The outsourcing took place between 2002 and 2004. This section analyses strengths and weaknesses in the selected case by comparing the data gathered from the interviews to the outsourcing practices presented in the literature. Since the scope of this thesis is on the development of a generic outsourcing process, the emphasis of the analysis is on the method of how outsourcing was conducted, instead of presenting the actual outcome of the outsourcing activities.

Results of the analysis are presented in the form of outsourcing process presented in the part 3 and thus divided in to seven phases. Although the case company did not have any process in use at that time, division is used to allow logical comparison between the results of the interview and best practices presented by the literature. Results are presented in Figure 14 below.

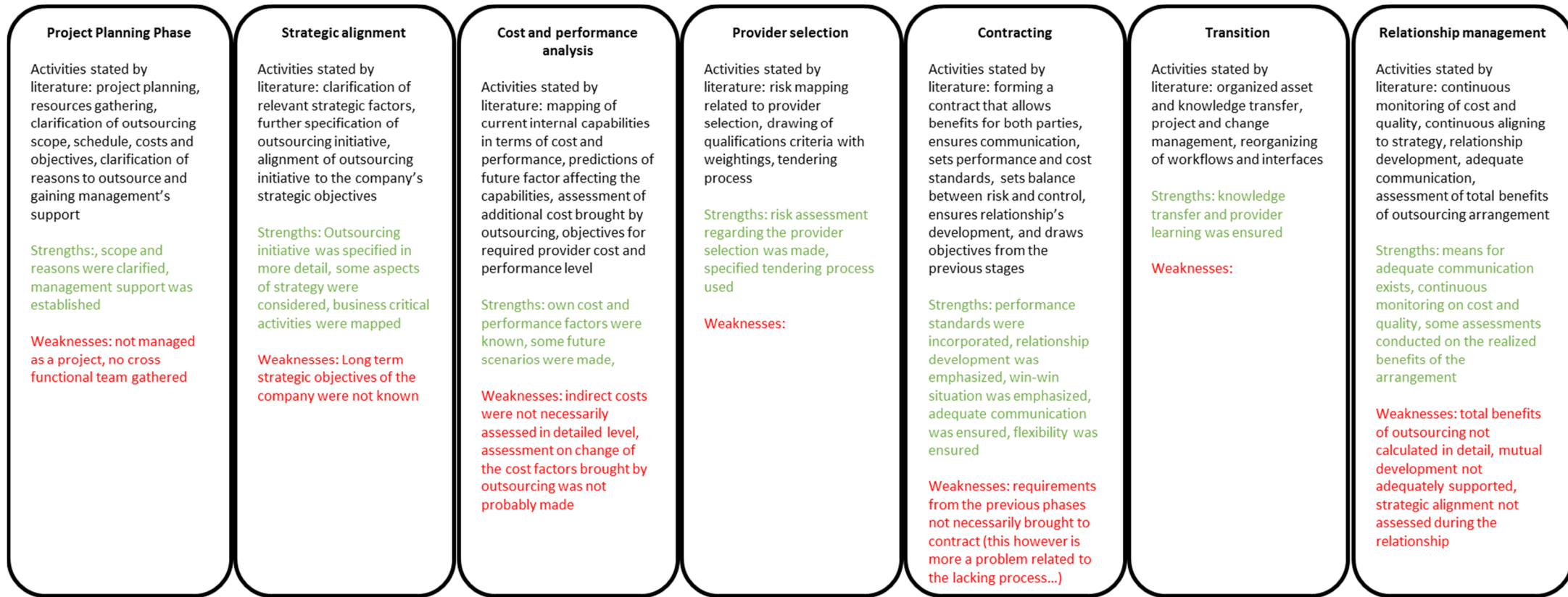


Figure 14. Results of the current state analysis presented in the framework of outsourcing process.

Figure 14 presents the results of the analysis in the form of outsourcing process. In each phase, activities that literature presents to be included to the phase are presented, as well as results from the comparison analysis in forms of strengths and weaknesses. In the following sections, results of the analysis are reviewed further by looking into each phase in more detail.

4.2.1 Planning Phase

In the studied case, following activities were discovered that could be considered as strengths and weaknesses in the planning phase of the outsourcing process presented by the literature (Figure 15).

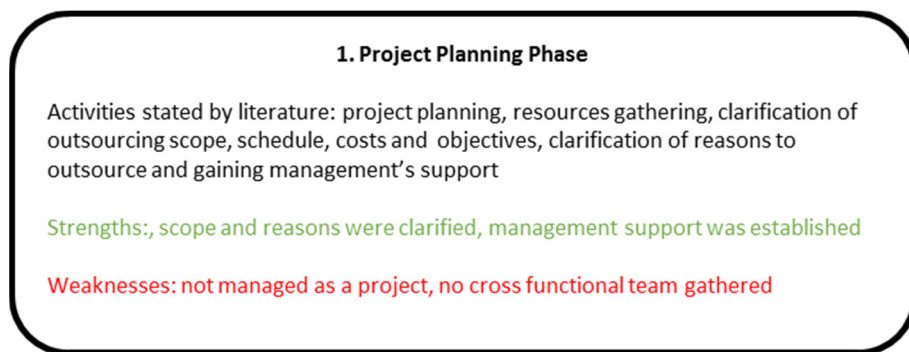


Figure 15. Strengths and weaknesses in project planning phase.

As presented in Figure 15, following factors were recognized as strengths. In the case company, reasons for outsourcing were clear in the beginning of the initiative. Reasons related to the required future investments that could be avoided by outsourcing. Also, scope of the outsourcing was specified to the outsourcing of operative warehousing activities, with specified decision rights. The outsourcing initiative also had the support from the high management, as the initiative for outsourcing originated from the high managerial level. Identified weaknesses relate to the fact that although planning activities occurred, specific project was not established. According to Head of Supply Chain

“Some planning and coordination was probably done, but the initiative was not managed as a project” (Interviewee 1).

Also, resources used in the case were mainly from logistics, and while probably cross functional communication occurred when necessary, no planned cross functional team work existed.

4.2.2 Strategic Alignment Phase

Strengths and weaknesses found in the strategic alignment phase are presented in Figure 16.

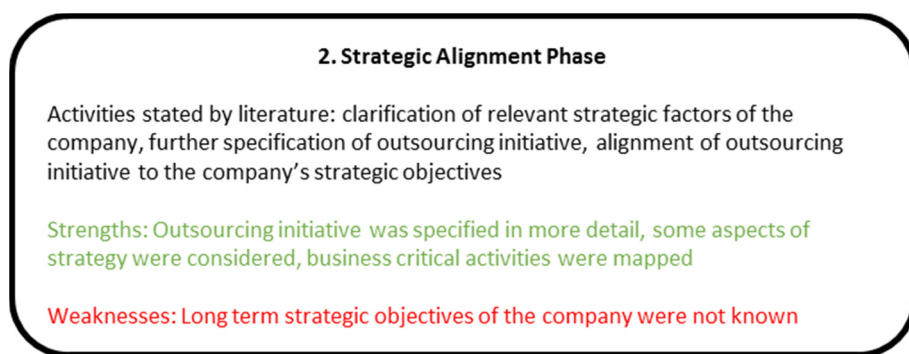


Figure 16. Strengths and weaknesses in strategic alignment phase.

As depicted in Figure 16, among the strengths in this phase was further specification of the outsourcing initiative. The contract length, relationship model, and the scope of given decision rights were defined. Also, some strategic factors in the company were considered. Head of Supply Chain specified that

“At that time, the growth in product assortment was seen as a strategic mean to increase sales, and outsourcing supported this by enabling us to increase warehousing capacity without the risk of own investments” (Interviewee 1).

Also, as a strength, mapping of internal business critical activities as part of the outsourcing decision-making could be recognized. A recognized weakness was the fact that the outsourcing team did not necessarily have all the information about the necessary stra-

tegic factors available for the assessment of outsourcing decision. Interviewee 1 suspected that these factors were taken into account in the high management in their final decision making, but knowledge to support this suspicion does not exist.

4.2.3 Cost and Performance Analysis Phase

Regarding the cost and performance analysis phase presented by literature, strengths and weaknesses presented in Figure 17 were found in the studied outsourcing case.

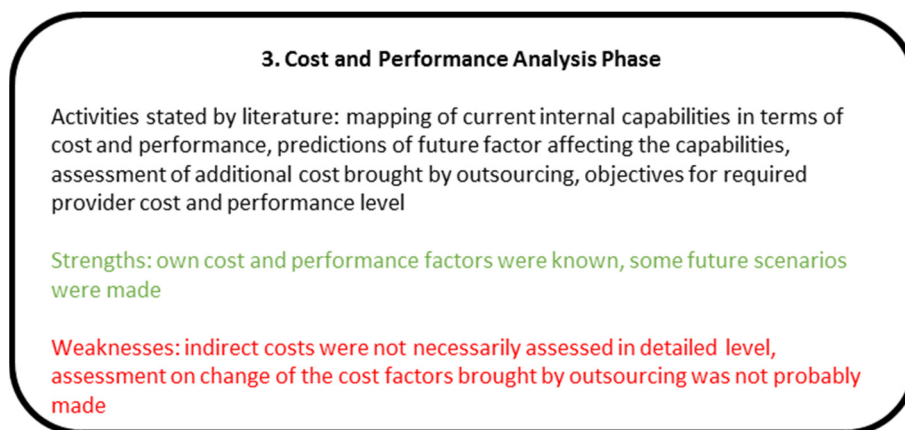


Figure 17. Strengths and weaknesses in cost and performance analysis phase.

As a strength, before the outsourcing activities, the case company had well established internal performance and cost monitoring practices in use. These were not utilized for outsourcing activities but had been in use to measure company's internal cost and performance levels. However, these same measures were be used in the outsourcing initiative to establish clarity of company's own capabilities. Also, same measures were used as a basis when standards for provider performance was established. As stated by Head of Supply Chain

"We had long traditions in work measurement that were developed for our internal purposes of monitoring and development of warehouse operations. This allowed us to estimate our internal capabilities and set standards for providers quite effortlessly" (Interviewee 1).

Strengths were also recognized in the fact that the case company draw future scenarios and assessed the outsourcing decision based on this scenario. Some weaknesses were

also recognized related to this phase. All indirect costs were not included to the assessment, and as said by the Head of Supply Chain

“The operational cost was well known, but all indirect cost factors were not assessed in detail” (Interviewee 1).

In addition, possible new cost that could emerge by outsourcing were not considered, and thorough comparison of total costs between internally and externally performed operations were lacking.

4.2.4 Provider Selection Phase

Figure 18 present strengths and weaknesses that were recognized in the activities of the case company related to provider selection phase.

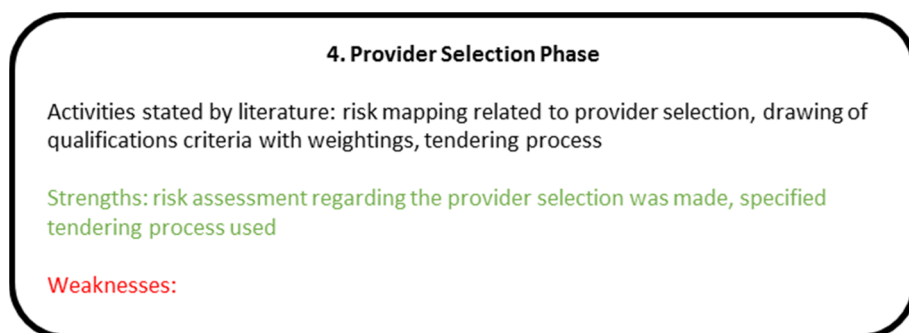


Figure 18. Strengths and weaknesses in provider selection phase.

As stated as a strength in Figure 18, a risk assessment was conducted by the case company. Interviewee 1 points out one particular factor, the right size of the service provider, which was considered as a prerequisite for establishing outsourcing relationship. However, management of other risk factors at this stage was not recognized during the interview. As a strength, also a use of specified tendering process with different stages was recognized. Any specific weaknesses could not be specified because of the lacking information available.

4.2.5 Contracting Phase

Related to contracting phase, Figure 19 presents strengths and weaknesses found in the analysis.

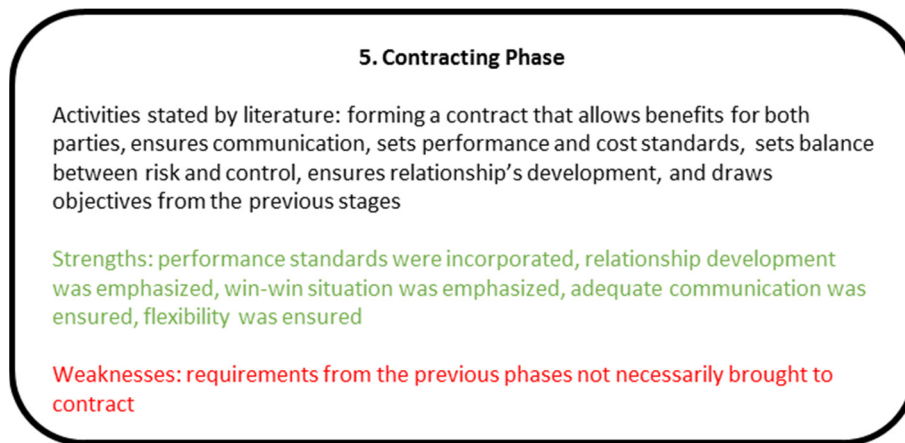


Figure 19. Strengths and weaknesses in contracting phase.

One major strength in the case was found to be the objective of the contracting, a forming of a beneficial contract for both parties. Head of Supply Chain clarified that

“Right from the beginning the objective was to create a true win-win situation, where benefits of strategic partnership could be achieved” (Interviewee 1).

Also, into the contract was included clauses that encourage parties for mutual development of operations. Means for communication was specified that incorporated operational, tactical, and strategic level communication methods. Balance between flexibility and control was established by beginning the relationship by setting up a joint venture, which decreased the risks for both parties. Finally, relevant performance standards were incorporated to the contract. As a weakness, it can be stated that the case company did not consistently bring terms and requirements to the contract from the strategic and performance assessment. Although these aspects were possibly taken into account when contracting, they were not systematically brought to the contracting phase. However, this can be regarded more as a general factor that is incurred by the specified outsourcing method.

4.2.6 Transition Phase

Factors related to transition phase are presented in Figure 20 below.

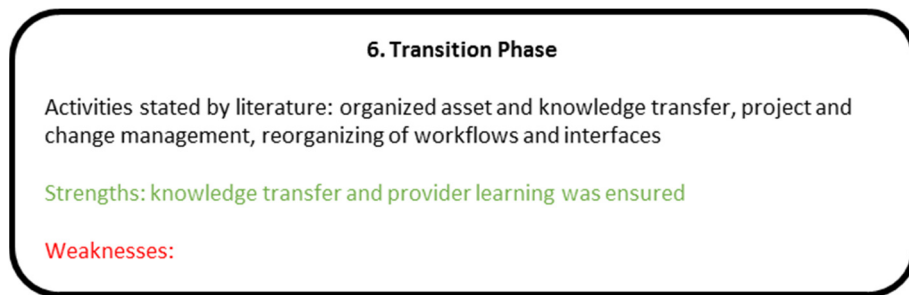


Figure 20. Strengths and weaknesses in transition phase.

As seen from Figure 20, only one strength and no weaknesses from the transition phase could be recognized. This is due to the fact that the actual transition in the case was conducted so that the service provider took over the existing operations, and therefore large scale transition was not necessary to conduct. The knowledge transfer and learning was endured by the already mentioned joint venture that lasted two first years of the relationship. According to Head of Supply Chain,

“Joint venture worked for us as a learning time, where we familiarized ourselves to each other’s ways of working and were able to transfer knowledge in a risk-free environment” (Interviewee 1).

However, several aspects regarding the transition activities of the studied case are not known because of the lacking information.

4.2.7 Relationship Management Phase

Strengths and weaknesses recognized in the analysis that relate to relationship management phase of the outsourcing process are depicted in Figure 21 below.

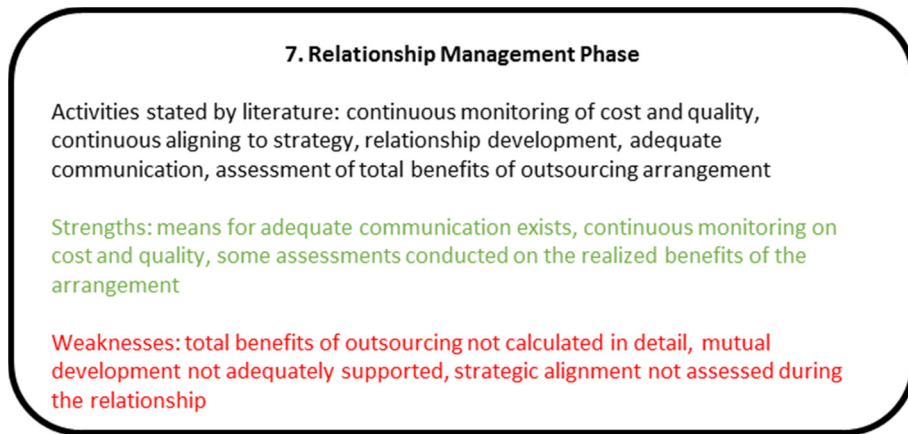


Figure 21. Strengths and weaknesses in relationship management phase.

As seen from Figure 21, several strengths were recognized related to relationship management activities. Ensuring adequate communications was acknowledged as cornerstone in the case company for sustainable relationship. This also allows for monitoring of provider performance within the relationship. Also, at some level, the actualization of benefits from the outsourcing arrangement has been assessed by benchmarking other outsourcing activities. However, as is stated as a weakness in Figure 20, extensive mapping of benefits and drawbacks of the outsourcing arrangement has not been made since the relationship was established. According to Head of Supply Chain

“Kesko BTT has been pleased to the provided cost and service level, and thus not questioned the benefits of the arrangement. However, more detailed analysis should be conducted” (Interviewee 1).

Also, although stated in the contract, the mutual development of the relationship has not been as successful as planned. Finally, the strategic alignment of the arrangement has not been reviewed during the relationship. Next section of the thesis concludes the current state analysis by summarizing the key findings.

4.3 Summary of the Current State of the Case Company

According to the study conducted on the current state of outsourcing practices in the case company, several strengths and weaknesses were found (Figure 21). Main weakness was the lack of any particular method or process when conducting outsourcing activities. As stated by Head of Supply Chain,

“At that time, although some stages in the implementation could be recognized afterwards, no such approach was consciously used that could be called as an actual process” (Interviewee 1).

In addition to lack of process, the management of the outsourcing initiative was found as a weakness. The initiative was not managed as project, and according to Interviewee 1, while some planning was conducted, systematic approach to the management of the outsourcing undertaking was lacking. Lack of process as well as clearly defined and planned project could imply that the decision to outsource was not well grounded, but because of inadequate information available during the current state analysis, this cannot be confirmed. Figure 22 summarizes found strengths and weaknesses.

STRENGTHS	WEAKNESSES
Strategic factors used as a basis for decision making	No process or specific method in use for outsourcing
Cost and performance factors used as a basis for the decision making	Lacking methods of management of the outsourcing initiative
To some extent, planning activities were conducted	No ongoing alignment of outsourcing arrangement to the company strategy
To some extent, risk assessment was conducted	No analysis of total benefits and drawbacks of the outsourcing arrangement
Relationship based on mutual benefits	
Adequate communications emphasized in the relationship	

Figure 22. Summary of strengths and weaknesses found in the current state analysis.

As seen from Figure 22, several strengths were also recognized. Strategic factors were included to the outsourcing decision, as well as cost and performance factors. However, the extent of which these factors were used to assess viability of outsourcing is not known. Other strengths were also recognized that related to the planning of outsourcing initiative. The scope of the outsourcing activates, as well as sought after relationship model were clarified during the initiative. Also, some risk assessment was conducted

regarding the size of the provider. Strengths were also found in the management of the provider relationship. Adequate methods of communications were established and need for mutual benefits recognized. However, these strengths are somewhat shadowed by the weaknesses found, such as non-existing means of continuous alignment of outsourcing activities to the company strategy and lacking assessment of total benefits of outsourcing.

In the following part, a proposal of an outsourcing process for the case company is constructed.

5 Building Proposal of a Generic Outsourcing process for the Case Company

In this part, conceptual framework and results from current state analysis are merged to form a process proposal for the case company. First, overview of this part is presented. Then, building of the proposal is reviewed.

5.1 Overview of Proposal Building

Proposal of the outsourcing process is composed in three parts. First, an initial proposal of the generic outsourcing process is drawn, as is discussed in Section 5.2. Initial proposal is constructed based on best practice presented by the literature. Second, initial proposal is reviewed with the results from current state analysis in Section 5.3. Third, the initial proposal is presented to the stakeholders in the case company. The proposal is thus co-created with the stakeholders (Data 2, described in Section 5.4). Finally, in Section 5.5, the initial proposal is modified according to the comments received from stakeholders form the final proposal of the generic outsourcing process.

In first part of the proposal building, the initial process is constructed based on the conceptual framework and company's business challenges described earlier in Section 1.2. Initial process is drawn beforehand for the stakeholder iteration, because the case company does possess any process for outsourcing currently. By input from stakeholders, the initial proposal can be modified further to suit the company's needs. Strengths and weaknesses found in the current state analysis are also taken into consideration. This is done by comparing results from current state analysis with the initial proposal. Comparison is done to ensure that found strengths are imbedded to the proposal, as well as to ensure that found weaknesses are mitigated.

After drawing the initial proposal, it is presented to the case company stakeholders for first round of iteration. The initial proposal is presented to the stakeholders in workshops. The participants of the workshops are selected among the probable users of the final process. Results of the discussions and remarks on the initial proposal form the Data 2 of this thesis. Finally, according to stakeholder's comments, the initial proposal is modified to form the final proposal of the generic outsourcing process. This proposal is then taken to the next iteration round and validation as described in part 6.

5.2 Review of the Initial Proposal of the Outsourcing Process

Initial proposal of the generic outsourcing process is built to fulfill several higher-level objectives. These objectives are drawn from the initial business challenge of the company, while acknowledging objectives for outsourcing process from the relevant literature. The following higher-level objectives were taken into consideration. First, the process should be generic in its nature, and adoptable to several cases of outsourcing with different scopes. Second, it should provide internal capabilities related to outsourcing decisions and decrease dependability on the outside advice. Third, it should provide guidance on the decision whether to outsource or not based on the company's internal as well as external factors. In addition to guiding in decision whether to outsource or not, it should provide guidance on how to conduct outsourcing in each situation. In aforementioned decision-making, it should ensure that the benefits sought from the outsourcing are achieved while negating possible risks. Finally, the process should be adaptable to assessment of viability of new outsourcing initiatives as well as existing ones. Therefore, it should cover the whole outsourcing lifecycle. Moreover, the process should be logically constructed and easily approachable by its users. Within the process, it should optimize the use of internal resources by dividing the decision process into separate stages.

The initial proposal drawn is presented in Figure 23.

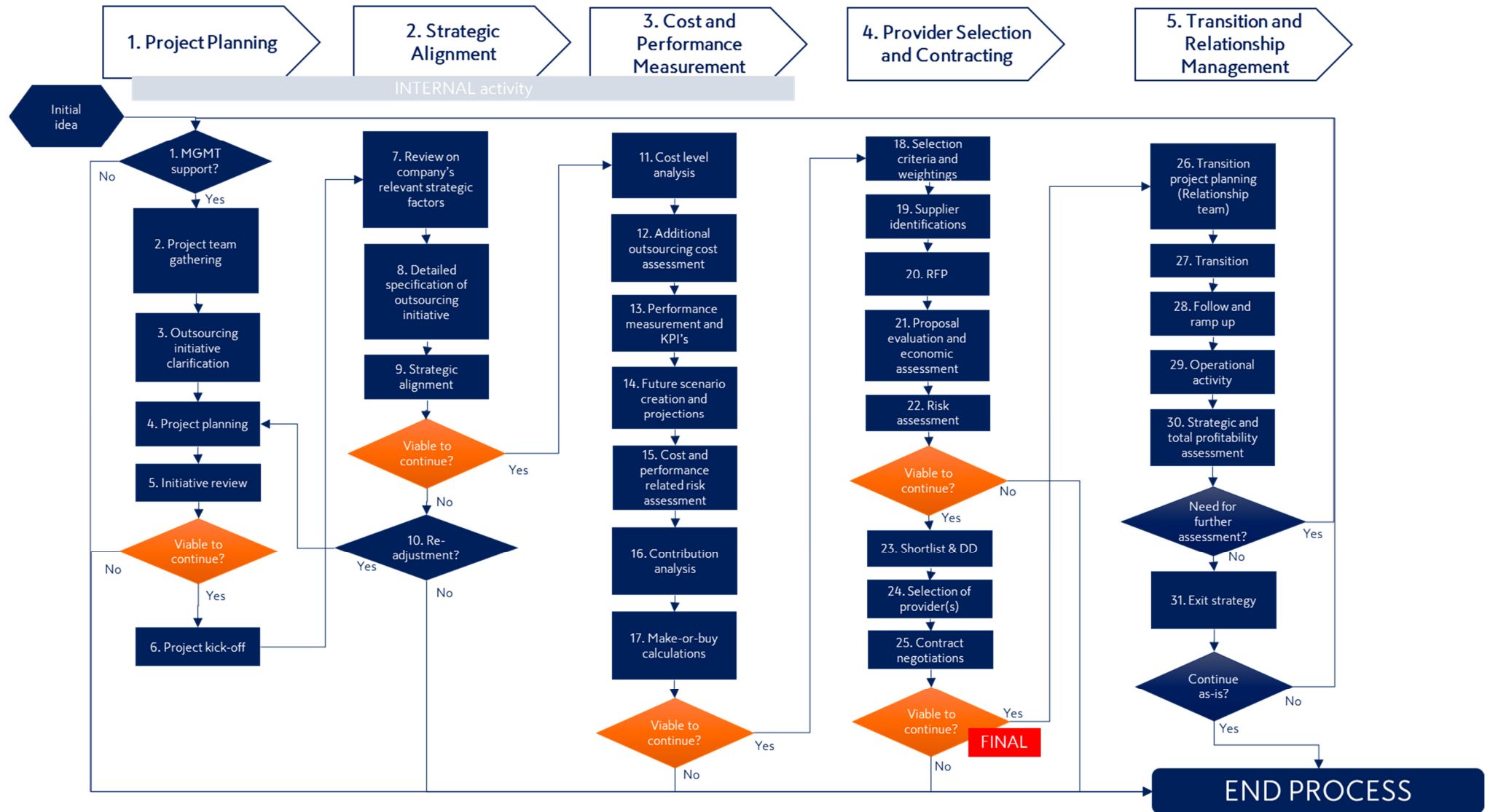


Figure 23. Initial proposal of the generic outsourcing process.

As seen from Figure 23, the initial process proposal covers five stages of outsourcing forming an outsourcing lifecycle. Each stage of the process has several sub-stages in them, which all have specific actions, objectives and decision points. Decision points marked with orange relate to the decision whether to outsource or not. As the process is generic, it aims to incorporate all relevant factors into its stages and sub-stages within them.

However, depending on the outsourcing case at hand, all sub-stages are not always necessary to be taken into consideration, and may be bypassed. In the process, stages from one to three are conducted internally within the company. This is done to ensure that all relevant factors and data are well taken into consideration when assessing providers and making the outsourcing decision. In addition, to be noted, when interpreting the process, all stages are presented in sequential order, but they can run somewhat parallel to one another to allow for flexibility.

In the following sections, the initial proposal is discussed further by reviewing each of the five stages separately.

5.2.1 Project Planning Stage

Objective of the project planning stage is to ensure that the outsourcing initiative is managed properly throughout the process. Also, this stage assesses whether the project requirements and risks are worth the possible benefits achievable from the specific outsourcing initiative.

As seen from Figure 24, the project planning stage, and the whole process, begins either from an idea brought to the process from outside the process, or from an initiative brought from the end of the process.

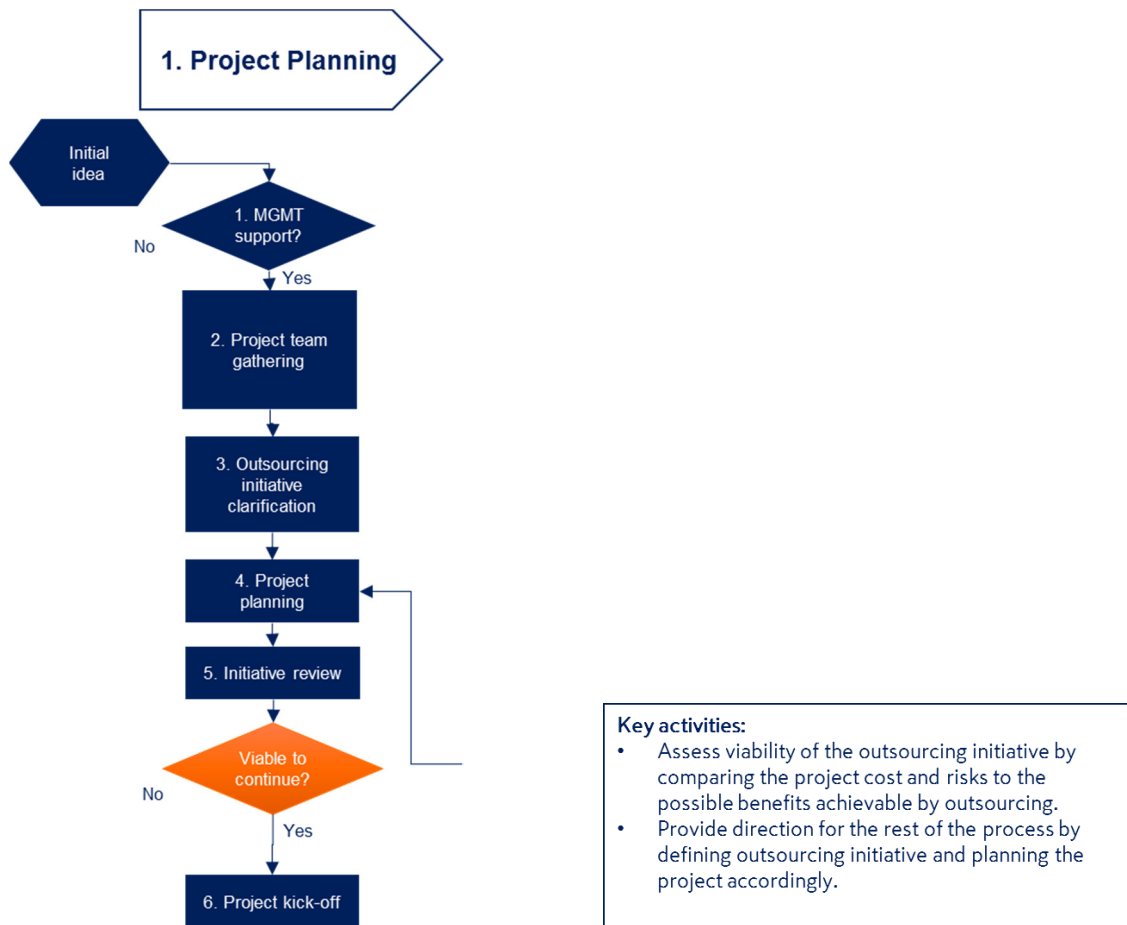


Figure 24. Project planning stage and its key objectives.

As seen from Figure 24, the project planning stage begins from sub-stage 1. It assures that the company's management supports the initiation of the process and the continuation of the process to the actual project planning sub-stages. At this sub-stage, a pre-study could be conducted related to the possible benefits of the outsourcing initiative. This is done to avoid unnecessary use of resources for the project planning, if the initiative is considered non-viable already at the beginning. If the outsourcing initiative is preliminary considered beneficial, the process is commenced.

The following three sub-stages (sub-stages 2,3 and 4) include the actual project planning. Required internal and external resources are gathered (2). Scope, reasons, and objectives of the outsourcing initiative are clarified in sub-stage 3. After outsourcing initiative's clarification, project costs, schedule and project related risks are specified in the actual project planning (4). In sub-stage 5, the determined costs and risks of the outsourcing project are compared to the assessed benefits achievable from the outsourcing initiative. This leads to the first actual decision point of the outsourcing process. If the

possible benefits are seen greater than the costs and risks of the project itself, the process continues to the next stage. If not, the process is ended.

5.2.2 Strategic Alignment Stage

The strategic alignment stage reviews the company's strategic factors. It also compares the outsourcing initiative to these factors to determine whether the sought-after outsourcing arrangement is aligned with the company's strategy. Strategic alignment stage is presented along with its key objectives in the Figure 25.

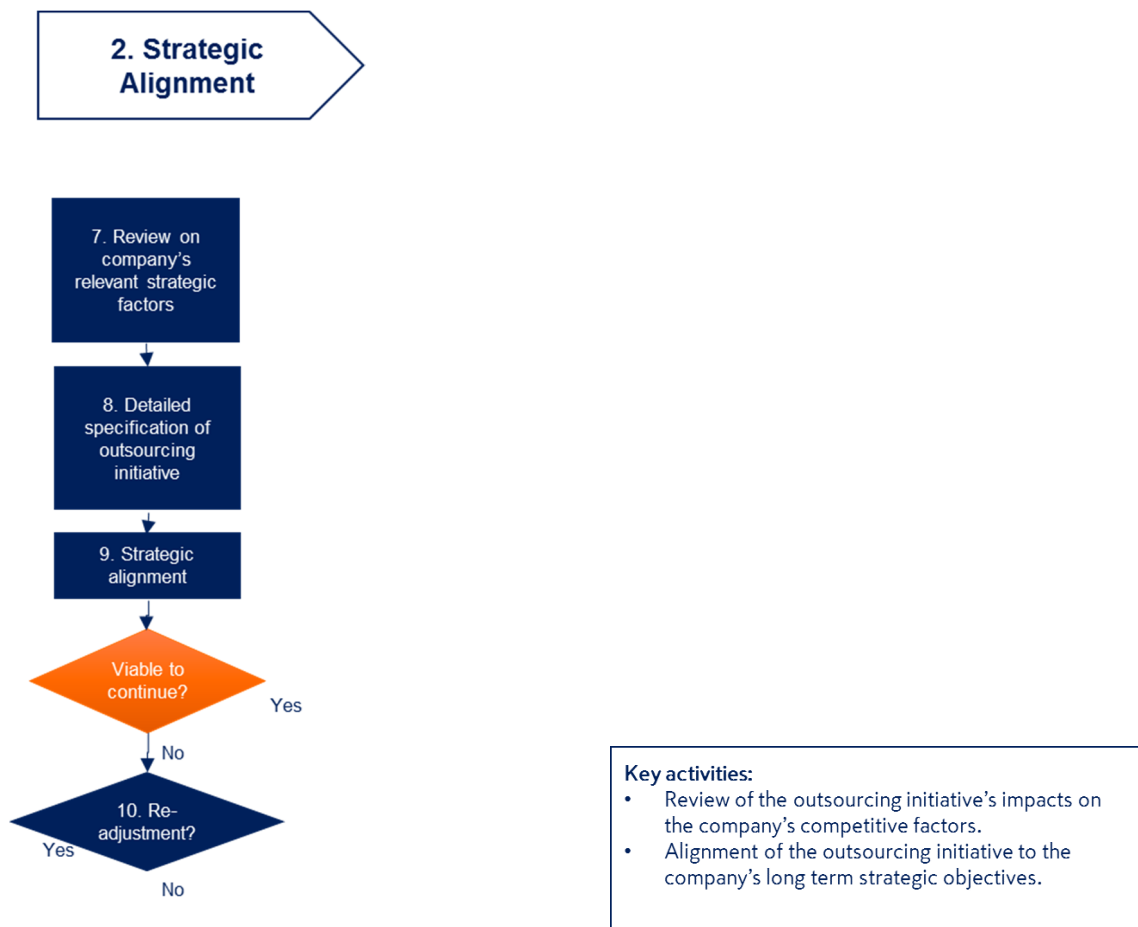


Figure 25. Strategic alignment stage and its key objectives.

As presented in Figure 25, the strategic alignment stage continues the outsourcing process from the project planning stage in sub-stage 7. In sub-stage 7, the relevant strategic factors of the company are reviewed. These may include, but are not limited to, clarifica-

tion of the company's long term business objectives, vision, core competencies and business critical functions. Emphasis in this sub-stage is on clarifying the current and future key business areas and the competencies that produce competitive edge on those areas. In the following sub-stage (8), the sought after outsourcing arrangement is specified further. Based on the outsourcing requirements defined in sub-section 3, the sought-after relationship model is defined, the desired contract length is determined, as well as extent of decision rights handed to the possible provider.

Other aspects related to the specific outsourcing arrangement may also be determined. In the following sub-stage 9, the reviewed strategic factors (7) and the specified sought after outsourcing arrangement (8) are compared to each other. Aim is to identify if the outsourcing initiative is aligned to the company's strategic factors and identify possible risks that could be realized by outsourcing. For example, as described in the literature, functions that incorporate core competencies are not be outsourced. If the outsourcing arrangement is aligned with the strategic factors, the process continues to next stage. If not, the outsourcing initiative may be re-adjusted to fit the strategy (10). Then it is returned in the process to the project planning sub-stage again (4). If re-adjustment cannot be done, the process ends.

5.2.3 Cost and Performance Measurement Stage

Cost and performance measurement stage reviews company's as-is and future internal capabilities to perform the function in the outsourcing scope. Also, it prepares for the following provider assessment activities by setting cost and performance related standards. The cost and performance measurement stage is presented in Figure 26.

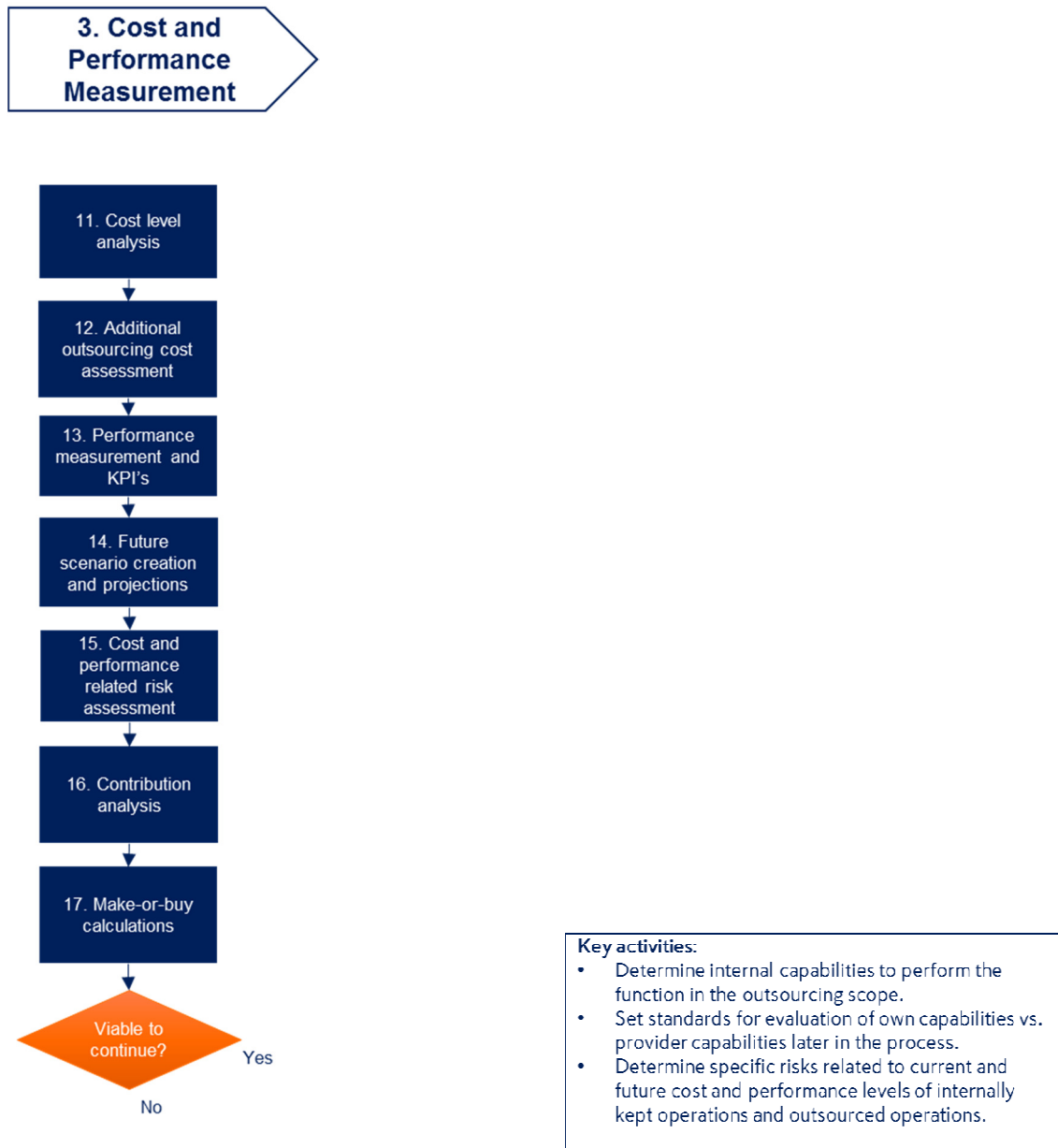


Figure 26. Cost and performance analysis stage and its key objectives.

As depicted in Figure 26, the first sub-stage in the cost and performance measurement stage is the cost level analysis (11). In this sub-stage, as-is cost level of the functions in the outsourcing scope are mapped. Direct and indirect cost factors of the function are defined. This is done to understand the current capabilities to perform the function internal in terms of economic factors. Also, the impact of outsourcing to the cost factors is assessed. As stated in the literature review, not all cost factors may be apparent beforehand and new cost factors may arise by outsourcing. This is assessed in the sub-stage 12.

Next, in sub-stage (13), the performance measurement and KPI's, maps the as-is capabilities of the company to perform the function at hand by using relevant performance measurements. These measurements relate to others than economic factors, such as quality, lead-time and service level to perform the function. Although, naturally these factors can also have economic implications. If relevant performance measures do not exist, they are created. These measures are used later in the process to assess providers promised and realized performance.

Sub-stage 14, the future scenario creation and projections predicts future changes to the cost and performance levels reviewed in the previous sub-stages (11, 12, 13). It defines factors that can affect cost and performance level in the future and assesses their implications to the profitability of the operations. Both internally performed operation and outsourced option are analysed. This sub-stage is followed by a specific risk assessment. In sub-stage 15, risks are assessed that relate to both internally kept operation and outsourced option. Risks can relate to profitability factors, but also other aspects can be included, such as assessment of implications from poor provider performance. Both current risks as well as possible future risks and their implications are assessed.

Sub-stage 16 determines the contribution value of the function in the outsourcing scope to the company. Here, strategic factors reviewed in previous stage are taken into consideration with internal capabilities determined in this stage. Strategic value of the function is compared to the company's capabilities to perform the operations internally. Final sub-stage in this stage is the "make-or-buy" calculations (17). In this stage, based on the previous sub-stages, the economic brake-even point for the outsourcing arrangement is calculated. Although providers pricing details are not known yet, the calculations are prepared already at this stage for more convenient provider evaluation in later stages of the process. Also, preferred pricing model for outsourcing arrangement is determined. The cost and performance measurement stage ends in decision point. In this point, assessment is conducted whether the outsourcing is viable option to take based on current and future own capabilities, predicted provider capabilities and recognized risks. If the outsourcing is still seen as possible option, the process is continued. If not, the process is ended.

5.2.4 Provider Selection and Contracting Stage

Objective of this stage is to ensure the selection of best-suited service provider and to form a contract that supports the objectives of the outsourcing arrangement. Also, essential factor of the stage is the final decision whether to outsource or not. Provider selection and contracting stage is depicted in Figure 27.

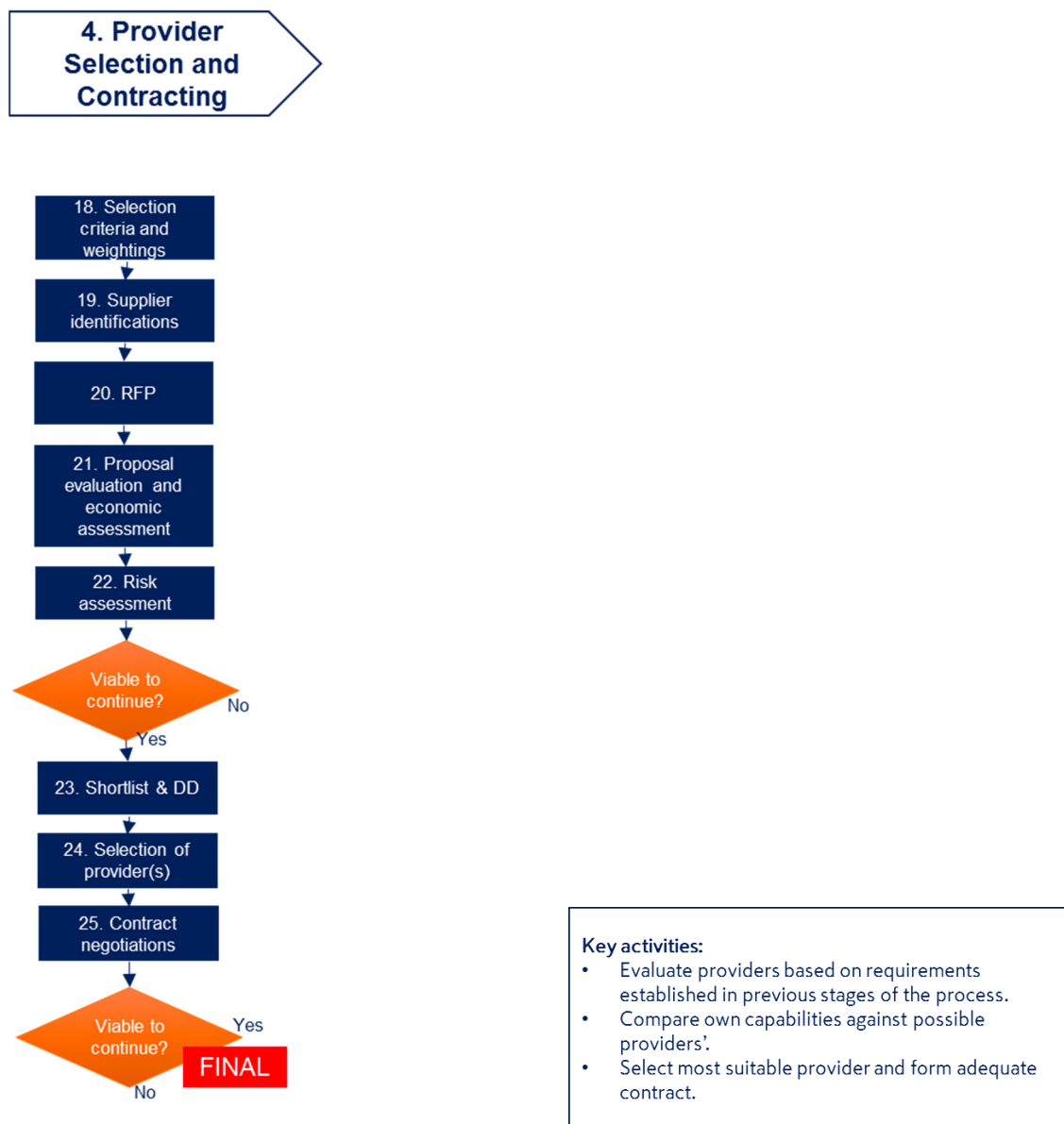


Figure 27. Provider selection and contracting stage and its key objectives.

The provider selection and contracting stage begins by drawing selection criteria for provider evaluation in sub-stage 18. Also relevant weightings for each criterion is applied.

Criteria drawn based on needs specified in previous stages of the process, for example in sub-stage 3. After drawing the criteria, possible providers are searched. Supplier identification in sub-stage 19 marks the first contact to the possible providers, where suitable providers for RFP process are recognized.

In the following sub-stage (20), RFP's are drawn and sent to the providers. RFP's include requirements for the outsourcing providers' capabilities and other relevant information for the tendering process. For example, reasons and objectives for outsourcing are brought from sub-stage 3, arrangement specifications are brought from sub-stage 8, and preferred pricing model is brought from sub-stage 17. Provider proposals are assessed and compared in the following sub-stage (21). Also, pricing details received in the proposals are updated to the prepared "make-or-buy" calculations to assess economic capabilities of the provider compared to own capabilities. Provider evaluation is followed by update on risk assessment (22). Based on the provider evaluation a decision is made whether any of the provider can offer required benefits based on the selection criteria as well as economic factors. In addition, risks related to each provider are taken into consideration. If suitable providers exist, the process is continued, if not process ends.

If the process was continued, it leads to the sub-stage of shortlisting providers and possible due diligence process (23). Finally, with selected providers (24), contract negotiations are commenced. Objective of the contract negotiation (25) is to negotiate a contract that fulfils the needs described previously in the outsourcing process, as well as to create a contract that is beneficial to both parties in the long run. Relevant contents of the contract were discussed further in Section 3.3.5 of this thesis. If the contract objectives are reached, the final decision to outsourcing can be made. If not, the process ends.

5.2.5 Transition and Relationship Management Stage

This stage transfers operations to the providers control and manages the created relationship to achieve set objectives for the outsourcing. Also, in this stage, decision regarding the continuation of the outsourcing activities are determined. Transition and relationship management stager is presented in Figure 28.

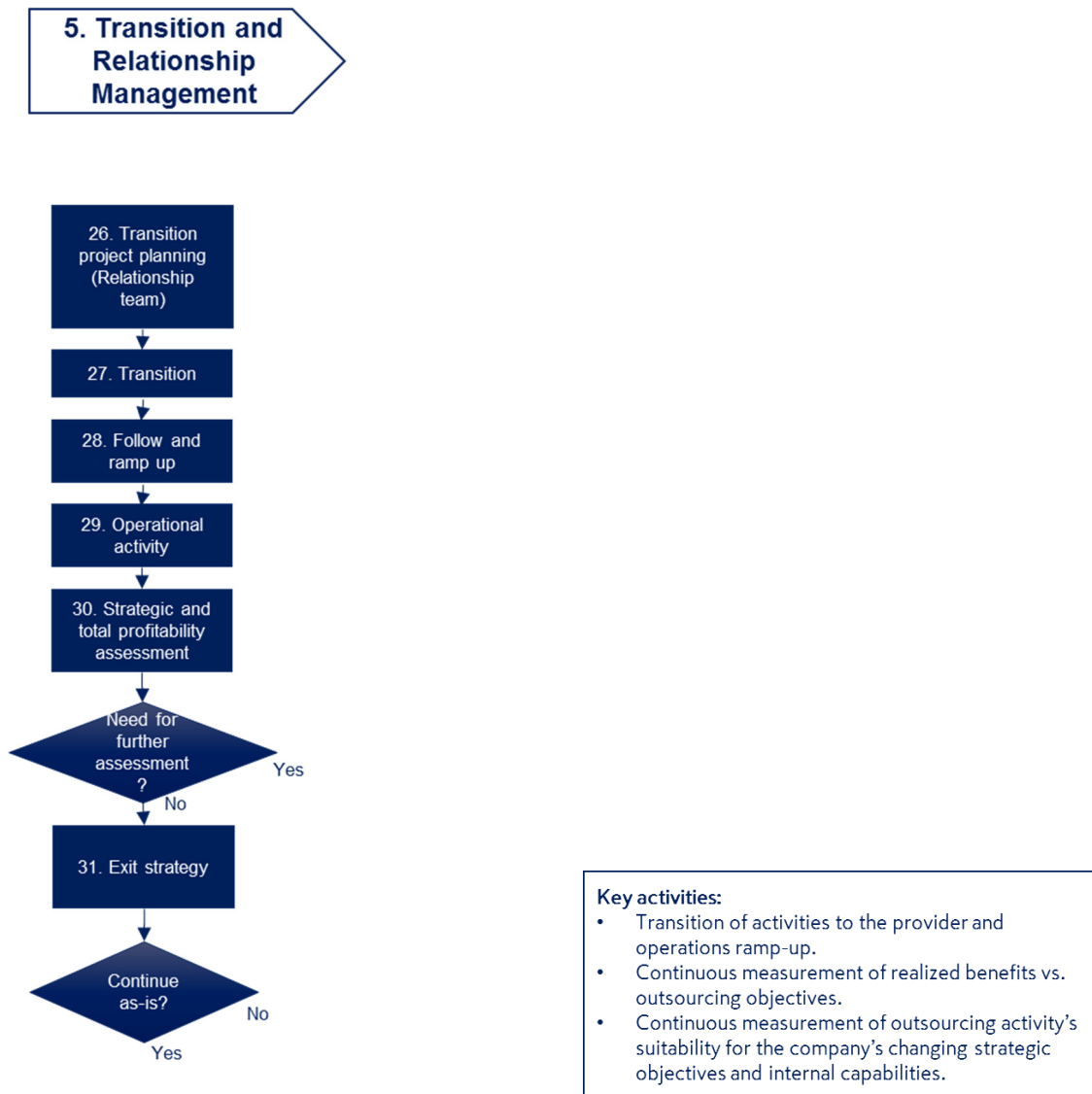


Figure 28. Transition and relationship management stage and its key objectives.

As depicted in Figure 28, the outsourcing process continues in its last stage with sub-section 26, the transition project planning. This sub-stage marks the ending of the project established in the beginning of the process, as the transition planning is conducted in cooperation by the both companies' relationship teams. This is done to ensure successful transition of knowledge along with the assets and enables both companies to acquaint their organization to the new situation. The actual transition and required ramp-up of operations are conducted in the following sub-stages (27, 28). These sub-stages lead to operational activity (29), where the formed relationship is monitored, managed and developed. Contents of the agreed contract are relevant in managing operational activity, as the contract includes contractual framework for the relationship management. These

may include for example the service level agreements that work as a basis for monitoring the provider performance.

The following sub-stage evaluates the benefits of the outsourcing arrangement (30). Along with the operational activity, this sub-stage continues throughout the contract length. In this sub-stage, total cost assessment of the outsourcing arrangement as well as strategic alignment to the possibly changing company strategy is continuously conducted. If the assessment induces reasons for further clarification, more detailed analysis can be conducted by reviewing the specific outsourcing arrangement through the whole process again. Applying the process to the existing outsourcing arrangement can clarify the suitability of the arrangement to possibly changed strategic objectives and internal capabilities to perform the function. This also forms a basis for an exit strategy from the contract (31). Before the contract ends, decision has to be how to proceed after the contract period ends. Options are to continue with the existing provider, search for new one, or internalize the operations have. Once more the process can be taken to the beginning for more grounded decision-making. Running the process continuously allows for the outsourcing initiatives and existing arrangements to be aligned to the company's current and future strategic objective as well as to internal capabilities. The following section aligns the initial process proposal to the results of the current state analysis.

5.3 Alignment of the Initial Process Proposal to the Current State Analysis

In this section, the initial proposal for generic outsourcing process and Data 2 gathered in the current state analysis are compared. Comparison is done to assure that the strengths found in the past outsourcing case are embedded also to the initial process proposal. Also, it is done to verify that the found weaknesses are mitigated in the proposal.

Figure 29 depicts the results from the current state analysis and corresponding part of the initial proposal that relates to each result.

	STRENGTHS	WEAKNESSES	
Strategic alignment stage	Strategic factors used as a basis for decision making	No process or specific method in use for outsourcing	The process itself
Cost and performance management stage	Cost and performance factors used as a basis for the decision making	Lacking methods of management of the outsourcing initiative	Project planning stage
Strategic alignment stage	To some extent, planning activities were conducted	No ongoing alignment of outsourcing arrangement to the company strategy	Sub-stage 30
Conducted in several stages	To some extent, risk assessment was conducted	No analysis of total benefits and drawbacks of the outsourcing arrangement	Sub-stage 30
Sub-stage 25.	Relationship based on mutual benefits		
Sub-stages 25, 29	Adequate communications emphasized in the relationship		

Figure 29. Alignment of the current state analysis' results to the initial proposal.

As seen from Figure 29, each strength and weakness is marked with corresponding part in the initial proposal. In strengths, strategic factors are recognized in the strategic alignment stage. Cost and performance related factors are reviewed in the cost and performance measurement stage. Planning activities are taken into consideration in the project planning stage and risk assessment is conducted several times during the process. Also, adequate communications methods are specified in the contracting sub-stage and used in the operational activities. Weaknesses are taken into consideration as follows.

The process itself can be considered as a method that can be used in outsourcing activities. Adequate management of the outsourcing initiative is ensured by establishing a project in the project planning stage of the process. In sub-stage 30, the strategic and total profitability assessment, the outsourcing arrangement is aligned with the company strategy on continuous basis. Also, analysis of the achieved benefits is reviewed in this sub-stage. And if necessary, the arrangement can be reviewed through the entire process for more detailed analysis.

5.4 Stakeholder Input to the Initial Process Proposal

In this section, results of the workshops with key stakeholders are presented. Results construct the data 2 of this thesis. Data 2 was gathered in two workshops where initial proposal was presented to the key stakeholders. Stakeholders present in the workshops were Kesko BTT's Head of Global Distribution Center Services (participant 1), Head of Supply Chain (participant 2), and from Onninen, Logistics Director (participant 3). Stakeholders were generally satisfied with the structure and contents of the initial proposal. However, some comments how improve the process were received. These are discussed in more detail below.

5.4.1 Improvement Suggestion 1

First comment related to a specific situations where own performance cannot be clearly determined. Such cases occur when new business areas are implemented in the case company, and operations new operations are needed to support them. Because such operations have not existed in the company before, determining the level of required capabilities to perform the operations may be difficult. Thus, the evaluation of required own capabilities versus possible provider capabilities can be difficult to make as presented in the initial process. As stated by Head of Global Distribution Center Services,

“It would be helpful if the cost and performance measurement stage also included some other ways to measure performance than by measuring already existing operations. Such could be for example benchmarking of competitors’ performance” (Participant 1).

5.4.2 Improvement Suggestion 2

Other comment received related to the provider availability. In the initial proposal, first contact to the possible providers is made in the stage four. According to Head of Supply Chain,

“Is it useful to go through the whole three stages of the process and start the provider search only in the stage four? What if it is clear from the beginning

that there are no suitable service providers available and still resources are used in first three stages?” (Participant 2).

It was agreed that some revision was needed to be made to the initial proposal.

5.4.3 Improvement Suggestion 3

Final comment related to the provider selection and contracting stage. It was commented that the two sub-stages that lead to contracting sub-stage were in illogical order. However, it was also discussed that as the process is general in its nature, it does not necessarily progress strictly in sequential order, and not all sub-stages are necessarily used in every case. All in all, small restructuring of the stage was agreed to be necessary. The following stage reviews the modifications made to the initial proposal of the process and introduces the final proposal.

5.5 Final Proposal of the Generic Outsourcing Process

Several changes were made to the initial proposal of the process according to stakeholder comments. First modification relates to the cost and performance measurement stage and improvement suggestion 1. To add clarity, former sub-stages 11 and 12 were combined to one sub-stage 11 (12 in final proposal). Also, new sub-stage, cost and performance comparisons and standards (15), was added. In this sub-stage of the process, company uses three previous stages to form internal standards of the desired cost and performance level for further assessment. If the case is such that internal capabilities cannot be measured, possible benchmarking of other companies can be conducted.

According to improvement suggestion 2, the process should enable mapping of the possible service in more advance than presented in the initial proposal. To enable this, a new decision point (4) was added to the project planning stage. In this decision, the provider markets are preliminary mapped and if markets are not considered to be saturated enough, the process is ended. The decision point takes input from the previous sub-stage of where the outsourcing initiative’s objectives were clarified. This helps to initially assess which type of service providers are required.

Based on the improvement suggestion 3, provider selection and contracting stage was revised. According to comments received, the shortlist and DD sub-stage were divided in to two separate sub-stages. Also, the order of the sub-stages was modified for more logic.

As an illustrative change, a note was added to the sub-stage 19 (20 in final proposal). This was added to emphasize the importance of contacting possible service providers only after proper internal assessment is done in the first three stages of the process. This was seen as a necessary addition, since the internal assessment conducted in three first stages of the process were seen relevant by the stakeholders.

The final proposal with applied modifications is introduced in Figure 30.

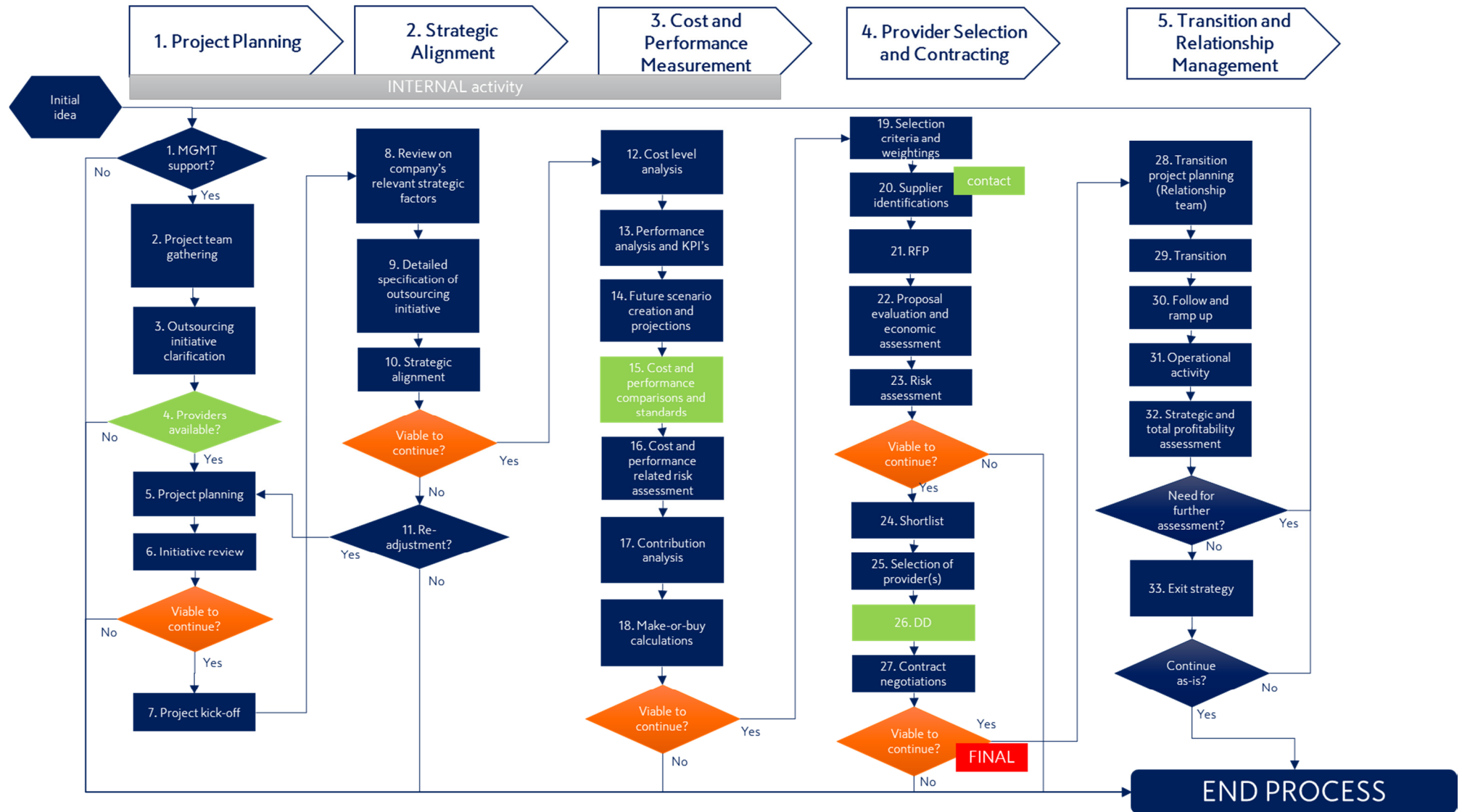


Figure 30. Final proposal of the generic outsourcing process.

Figure 30 presents the final proposal of the generic outsourcing process. In the process, modifications made based on the Data 2 are marked with colour green. To the project planning stage, a decision point (4) based on preliminary provider mapping was added.

Sub-stage 15 was added to the cost and performance measurement stage. Sub-stage contains benchmarking activities suggested by stakeholders. Also, in the final proposal, the sub-stage of evaluation of outsourcing's effects on cost factors was embedded to the sub-stage 12, and thus does not exist on the final proposal as a separate sub-stage. This was done to add more clarity and logic to the stage.

A new sub-stage was added to the provider selection and contracting stage. The due-diligence sub-stage (26) was separated to its own sub-stage from sub-stage 24 (previously 23). Finally, a notification was added to the supplier identifications sub-stage to emphasize the first actual contact point to the providers.

In the next part of this thesis, the final proposal is presented to the stakeholders for final iteration and validation.

6 Validation of the Final Proposal

In this part, final proposal of the generic outsourcing process presented in the part 5 is validated with key stakeholder of the case company. After validation, the outcome of this thesis, the final generic outsourcing process is presented.

6.1 Overview of Validation Phase

In the previous part of this thesis, the initial proposal of the generic outsourcing process was constructed. Initial proposal was constructed based on best practices presented by literature. This was done because of the lack of current method for outsourcing activities in the case company. Initial proposal was constructed to fulfil several objectives. These objectives were presented in the beginning of section 5.2. Then, the initial proposal was presented to the key stakeholders of the company for first round of iteration and gathering of data 2. This was done to modify the initial proposal according to key stakeholders' comments to better fulfil the requirements of the case company. Finally, the initial proposal was compared to the results of the current state analysis (data 1) for added relevance to the case company. Part 6 concluded with the presentation of the final proposal of the generic outsourcing process.

In this part, the final proposal constructed in the end part 6 is validated. Validation is done by presenting the final proposal to the key stakeholders and by modifying the final proposal according to received comments. Validation is done to further ensure the suitability of the process to the needs of the case company. Comments received by the stakeholders form the basis of data 3 of this thesis. Modified initial proposal according to data 3 represents the final version of the generic outsourcing process.

Key stakeholders selected for the validation of the final proposal were the same as in part 5. Stakeholders were Kesko BTT's Head of Global Distribution Center Services (participant 1), Head of Supply Chain (participant 2), and from Onninen, Logistics Director (participant 3). These stakeholders were selected for the initial proposal building stage and to this validation stage, because they represent the probable users of the final process. Also, selected stakeholders are responsible for the implementation of company strategy to its logistics processes. Therefore, they are appropriate to assess the suitability

ity of the process presented in this thesis to the case company's actual needs. The validation was done during one workshop where all participants were present. In the following sections, the results of the validation, as well as the final process is presented.

6.2 Development of the Final Proposal according to Validation

Validation workshops were conducted by first reviewing the objectives set for the generic outsourcing process. Then, modifications made to the initial proposal were presented along with final proposal to the stakeholders. Finally, further development needs were assessed together.

Key stakeholders agreed that the final proposal serves well the requirements set for the outsourcing process. The structure was considered logical, and easy to follow. The process was regarded to fulfill its purpose of providing assistance to decision making during outsourcing initiatives. As stated by Head of Global Distribution Center Services:

“The structure where internal factors are reviewed thoroughly before contacting any service provider should improve objective decision making” (participant 1).

Also, the division of the process into sequential stages with clear topics was well received. By words of Head of Supply Chain,

“It seems that the stage three is quite rough and requires heavy use of resources. It is good that it comes only after the two previous stages so that more easily definable decision criteria can be assessed first” (participant 2).

Stakeholders also agreed that the process can be used to mitigate possible risks and to aid in achieving set goals for outsourcing initiatives. According to Logistics Director,

“If own capabilities and operations' performance along with core competitive factors are not clarified before outsourcing, risks of failure is significant. This process can be used to avoid those risks” (participant 3).

Participants also agreed that the initial proposal serves the generic needs of the process, and that it could be implemented to various cases. It was said to contain all relevant

factors that are needed in the outsourcing related decision-making. Especially two stages, the strategic alignment as well as cost and performance measurement were seen important. All in all, the initial proposal was seen as suitable to fulfil the need it was developed for. As stated by the Head of Global Distribution Center Services,

“This process gives us new capabilities in the current situation as well as in the future to make more grounded outsourcing related decisions.” (Participant 1).

However, one suggestion of further improvement was received to the final proposal. During the validation workshop, it was discussed that when making the outsourcing decision, one additional factor should be added to the viability assessment. This was an assessment of other possible development methods that could be used to develop the function internally instead of outsourcing the function. Such situation might arise when during the process internal capabilities to perform the function has been stated as sub-par. Then, the option to outsource might be considered viable because of the possible higher performance of the providers. However, development of internal capabilities should also be considered as an option to achieve the required performance standard. It was agreed that an activity of assessment of internal capabilities was to be added to the final proposal. After that, the presented process could be regarded as final version of the generic outsourcing process. In the following section, the final version of the generic outsourcing process is presented along with the agreed modification.

6.3 Final Version of the Generic Outsourcing Process

To compile the final version of the process, the agreed addition of the assessment of the internal development possibilities was added to the final proposal of the process. It was added as a sub-stage to the cost and performance measurement stage. The sub-stage was named *applicability assessment of other development methods*. The final version of the generic outsourcing process with the added sub-stage is presented in Figure 31.

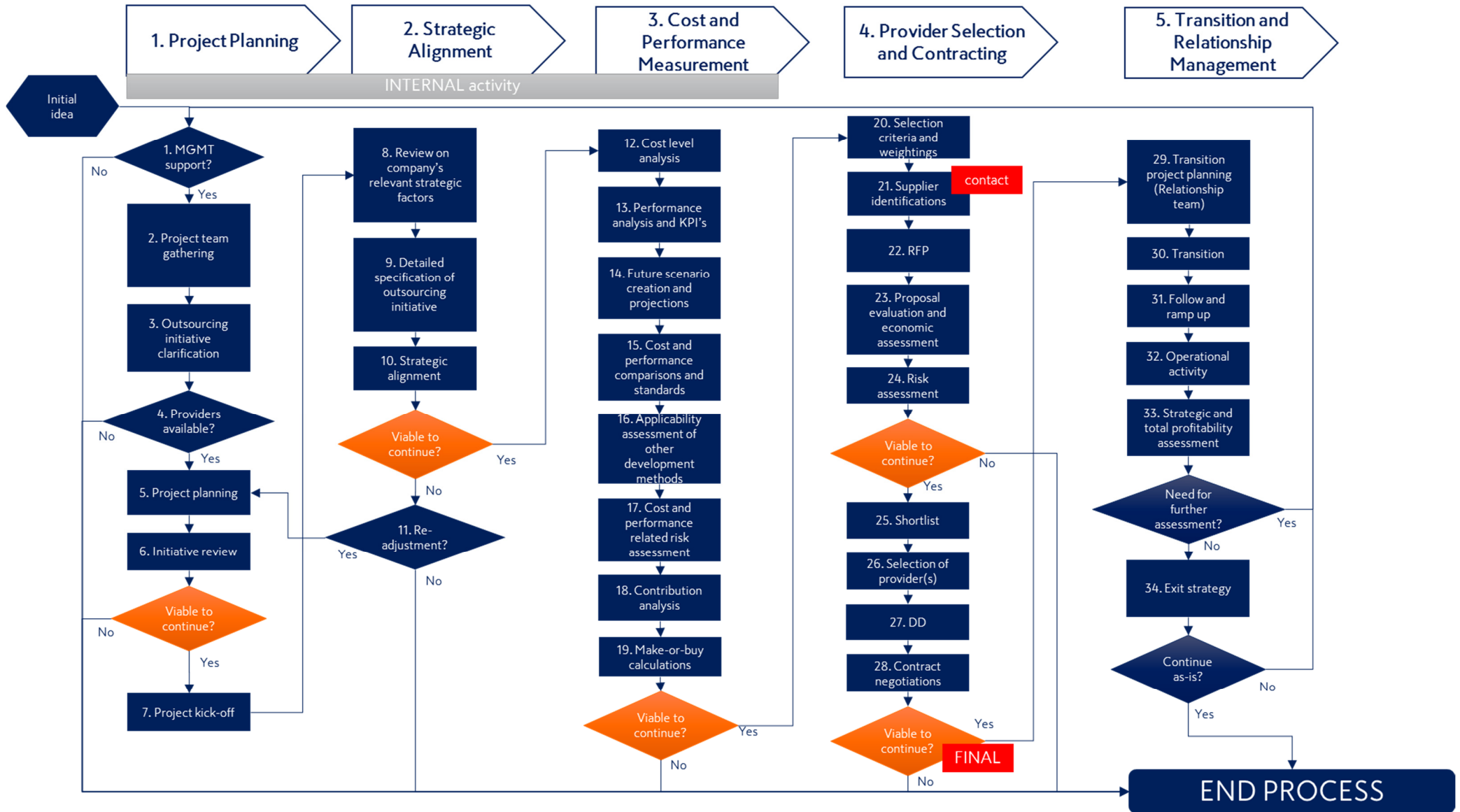


Figure 31. Final version of the generic outsourcing process.

In Figure 31, the outcome of this thesis, the generic outsourcing process, is presented. The agreed addition can be seen in the cost and performance measurement stage as sub-stage 16. It was added after the definition of required cost and performance standards. This allows for applicability assessment of other internal development methods against the set standards.

This part ends the development of the generic outsourcing process for the case company. In the next part, conclusions of this thesis are discussed.

7 Conclusions

This part presents the summary of this thesis and discusses proposals for next steps. Also, evaluation of the outcomes, reliability and validity of this thesis is conducted.

7.1 Executive Summary

This thesis focuses on developing an outsourcing process for the case company. In the case company, the need for development of an outsourcing process was induced by the previously occurred company acquisition. After the acquisition, two formerly separate logistics operations exist within the same company. To enable synergies from the acquisition, and to support the company strategy, these logistics operations of the formerly separate companies have to be aligned. In the past, the two companies have had different levels of outsourcing in their logistics operations. Therefore, as part of the alignment, the use of outsourcing in the common logistics operations have to be defined. In the case company, this has brought up a requirement for increased internal capabilities for outsourcing related decision-making. Thus, the case company has recognized the need for more structured approach for its outsourcing practices.

To meet the aforementioned business challenge, this thesis aimed to develop an outsourcing process for the case company. In the beginning, several requirements for the process were recognized. The process was required to be generic in its nature, so it would be implementable to multiple practical outsourcing cases the company might face in alignment of its logistics operations. It was required to include all relevant factors related to the outsourcing decision-making while maintaining the structure and clarity for its users. It was also required to give guidance to the question of whether to outsource or not, but also, when outsourcing, how to do it best. All in all, the objective for the process was set to improve case company's ability to achieve sought benefits from outsourcing activities while negating risks.

So far, the case company did not possess any particular method or process for conducting outsourcing activities. Therefore, this study started by gaining knowledge on outsourcing practices from literature. From the literature, a conceptual framework was constructed. This framework consisted of seven sequential stages covering the whole out-

sourcing lifecycle from the initial initiative to the ending of the relationship. This framework would later serve as a basis for the actual outsourcing process developed for the case company.

Next, in the current state analysis, outsourcing practices of the case company were explored and analysed. Since the case company did not have existing methods for outsourcing practices, a single outsourcing case from the past was selected for scrutiny. From that case, strengths and weaknesses were recognized based on the knowledge gained from literature. Found strengths and weaknesses would be used in the building of the initial proposal of the outsourcing process.

Development of the actual process was conducted in three stages. First, an initial proposal of the process was developed based on the conceptual framework and results of the current state analysis. Initial proposal was then presented to the key stakeholders of the case company. According to the input received from the stakeholders, improvements were made to the initial proposal to construct the final proposal for the process. Final proposal was taken back to the key stakeholders for the second round of comments. From these comments, the outcome of this thesis, the final version of the generic process for logistics outsourcing, was constructed.

Outcome of this thesis, the generic outsourcing process, consists of five consecutive stages. Each of the stage contain specific activities and objectives. Within these stages, the relevant decision factors for outsourcing decision-making are embedded. By taking into consideration factors such as the company strategy, economic performance, as well as internal and external capabilities, the process provides guidance in the decision whether to outsource, or perform operations internally. Also, the process provides help in defining the best suitable outsourcing arrangement in each situation by assessing factors such as relationship model and contract length. In this way, the process also provides guidance in how to conduct outsourcing. All stages of the process combined form an outsourcing lifecycle beginning from the assessment of the initial idea to outsource, to the ending of the outsourcing arrangement. Therefore, the process can be applied to any new or existing outsourcing arrangement for scrutiny. The process aims to be all encompassing by incorporating all relevant decision factors to the process. Thus, the process is generic in its nature, and can be applied according to the requirements of each specific case.

Thus, the outcome of this thesis proposes an outsourcing process that should increase the case company's internal capabilities in outsourcing related decision-making. According to the received feedback, it enables use of outsourcing as part of logistics operations that support the case company's overall business objectives, while sustaining economic performance of the operations.

7.2 Recommendations for Next Steps

Outcome of this thesis presented a generic process for logistics outsourcing. However, within the scope of this thesis, the process was not implemented in practice. Therefore, as a suggestion for future, it is recommended that the process would be applied to practice and use as a management tool in a practical outsourcing case. From the actual use of the process, in addition to possible benefits it may offer for the case company, further improvement suggestions to the process itself could arise. These improvements could further enhance the process and its relevance to the case company.

Also, as the scope of the thesis was to create the process in relatively high level, each stage and sub-stage of the process is not looked in detail within this thesis. Therefore, a second suggestion for future actions is to create more detailed guidelines for each stage and sub-stage of the process. These guidelines could include more detailed descriptions of the contents of each sub-stage in forms of key activities and possible tools that could be used. As the developed process is generic, guidelines could take into considerations more specifically different situations that can arise in practical outsourcing cases. Detailed guidelines would further increase the usability of the process in end-users' perspective.

7.3 Thesis Evaluation

In this section, the actual outcome of this thesis in relation to the initially set objectives is discussed. Also, relevance and validity of this thesis is evaluated.

7.3.1 Objective versus Outcome

Objective of this thesis was to develop a generic outsourcing process for the case company to be used in multiple practical cases. Initially, the case company did not possess such process, or any other method for outsourcing practices.

As the current state of the case company required the process to be built from the beginning, the objective was addressed initially by developing proposal based on external knowledge. To combine external knowledge to the requirements of the case company, number of iteration rounds were conducted with key stakeholders. Also, a past case of outsourcing was used as reference. According to received input, the final process was developed.

The initial research question of this thesis was *How should outsourcing process be constructed to support business needs of the case company?* To support business needs, the process was required to be suitable for multiple practical cases and therefore, to be generic in its nature. To assure this, the process was constructed to include all recognized relevant factors related to outsourcing practices. Also, the full lifecycle of outsourcing arrangements was included to the scope of the process. Thus, a complete generic outsourcing process was developed within this thesis, and it was validated to be suitable for the company requirements.

7.3.2 Reliability and Validity Evaluation

In the Section 2.3, the quality of this thesis was planned to be assured by considering two factors, reliability and validity. Also, relevance and logic was included to the quality factors.

Internal *validity* of this thesis was planned to be assured mainly by data triangulation. In this thesis, this meant the use of multiple data sources during the research. Mainly multiple sources for data were used when the research was conducted. In the literature review part, multiple references were used as data source, and theoretical saturation of data can be considered be achieved. Data triangulation was less successful in the current state analysis. Only one source of information was found, and therefore no triangulation could be done. In addition, as the past case took place long time ago, during the interview, some questions were left unanswered by the one interviewee. However, since the studied past case was not in major role when building the initial proposal, the low quality of data can be considered less influential to the objective of this thesis. In the two

stages of validation, the triangulation was successful as several sources were used for data 2 and data 3 gathering.

Internal *validity* was also assured by using conclusions made by the key stakeholders during the validations to modify presented proposals. Also, citations made by them were used to report validation results. External validity can be considered to be fulfilled as the final process incorporates best practices related to outsourcing processes presented by literature. All in all, planned validity can be considered to be achieved in the research for the most parts.

Reliability of this thesis was achieved by maintaining data bases for the research data as well as for used data sources. Results of this thesis can be considered to be repeatable, when applying same research methods that were used in this thesis. Therefore, research conducted in this thesis can be considered as reliable.

Relevance of this thesis refers to the question of how well the outcome of this thesis satisfies the initial business challenge of the case company. During the research, relevance was assured by iteration of the process proposals with the key stakeholders. This was done to assure input of relevant insight from the case company to the process development. Relevance was further added by validation of the modified processes and conclusions made the author of this thesis. According to the stakeholder comments on the final proposal, relevance was achieved.

Logic of this thesis was related to the internal validity. Logic was included by grounding made conclusions to the evidence presented by gathered data and relevant literature. Also, the logic of the conclusions was validated with key stakeholders and therefore were not solely depending on the author of this thesis. Logic in this thesis can considered to be achieved.

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